Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6

Department for Work and Pensions

Resource Accounts 2005-06

LONDON: The Stationery Office
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(For the year ended 31 March 2006)

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Contents

Annual Report

for the year ended 31 March 2006

Scope

This is the Annual Report and Accounts of the Department for Work and Pensions (DWP).

The Department is responsible for delivering the Government's welfare reform agenda, while continuing to provide day-to-day services for all its customers, including employers. Its principal aim is to promote opportunity and independence for all. More information about the Department's aim and objectives can be found in the Management Commentary (see page 7).

Departmental Boundary

The Departmental bodies that fell within the resource accounting boundary during the financial year were:

- DWP Head Office and Corporate and Shared Services
- Jobcentre Plus
- The Pension Service
- Child Support Agency (CSA)
- The Rent Service
- Appeals Service (TAS)
- Disability and Carers Service (DCS)
- Health and Safety Commission and Executive (HSC/E)

Although within the boundary, the HSC and HSE are Crown Non-Departmental Public Bodies administered separately from the Department.

In addition to the above bodies, the following areas of expenditure are also included within the boundary:

Social Fund

The Department is responsible for the Social Fund which is used to make grants and repayable loans to individuals. It makes regulated payments of funeral grants, maternity payments, winter fuel payments and cold weather payments and discretionary payments for budgeting loans, crisis loans and community care grants.

National Insurance Fund

The National Insurance Fund (NIF) is the responsibility of HM Revenue and Customs. However, the contributory benefits funded from the NIF are administered by the DWP on their behalf. These contributory benefit costs, together with their associated costs of administration, are recovered by DWP from the NIF. See also Note 1.2.

European Social Fund

The European Social Fund (ESF) is one of the European Union structural funds designed to strengthen economic and social cohesion. The Fund helps unemployed and socially excluded people to find work or develop their employability. It can also be used to help prevent people in work from becoming unemployed.

Other Programme Expenditure

This includes all non-contributory benefit expenditure, together with miscellaneous grants and compensation payments. In addition, subsidies are paid by way of grant to local authorities who, in turn, administer and pay Housing and Council Tax Benefit.

All of the above are incorporated within the resource account boundary.

Non-Departmental Public Bodies

The Department has responsibility for the following Executive Non-Departmental Public Bodies (NDPBs) who publish separate accounts and are not included within the Departmental boundary:

- The Pensions Regulator (TPR);
- The Pension Protection Fund (PPF); and the
- Disability Rights Commission (DRC).

Since April 2006 the Pension Protection Fund has been designated as a Public Corporation.

Remploy Ltd

The funding approved for Jobcentre Plus includes an amount for Remploy Ltd which represents grant in aid to help meet the additional costs associated with employing very large numbers of disabled people. Remploy Ltd is a private company limited by guarantee, whose net liabilities are guaranteed by the Secretary of State for Work and Pensions. It also has status as an Executive Non-Departmental Public Body and public corporation. Remploy Ltd falls outside of the Departmental boundary.

Post Balance Sheet Events

The 2003-04 Resource Account reported that in March 2003, the Lord Chancellor announced that the Government intended to set up a unified Tribunals Service within the Department for Constitutional Affairs (DCA). As a consequence, the Appeals Service transferred to the DCA with effect from 1 April 2006. Although the main impact will be on the Appeals Service, there will also be changes across the Department, particularly for staff involved in decision-making and appeals processes.

On 25 May 2006, the Pensions Reform White Paper; *Security in retirement: towards a new pension system* announced an extension to the Financial Assistance Scheme (FAS) to include people up to 15 years from their scheme pension age on 14 May 2004. It is planned that the secondary legislation granting powers for the extended payments will be in place in December 2006. An additional provision will be required at this stage and will take into account the discount rate for provisions as set by HM Treasury (2.2%). Current estimates using a 2.2% discount rate are that this will increase the overall provision for FAS by approx £715 million.

On 24 July, the Secretary of State for Work and Pensions announced the publication of the Report by Sir David Henshaw on the Redesign of child support, entitled "Recovering child support: routes to responsibility". On the same day "A fresh start: child support redesign – the Government's response to Sir David Henshaw" was published. This consultation document accepted his principal recommendations and set out the important questions which need to be resolved. It invited comments, to be submitted by 18 September 2006. The consultation document also indicated an intention to publish a White Paper with final detailed proposals in the autumn. The Government intends to bring forward legislation for redesigning child support, and the consultation document declares an ambition to see some aspects of the new system in place from 2008.

As part of the DWP wider Estate Strategy for its 1,600 building portfolio, the Department has approved a Programme to rationalise its Head Office outside central London from 25 buildings to 11. The Programme responds to the reducing DWP headcount and aligns with the report by Sir Michael Lyons "Towards better management of Public Sector assets" as well as the challenges set by SR04 and CSR07. The Programme commenced in September and will look to maximise the flexible use of space, in line with the "Working Without Walls" report by Office of Government Commerce, as teams are re-brigaded into retained sites. The first buildings will be disposed of in April 2007 and the Programme is due to complete in 2009-10.

Corporate Governance

Overview

The Department's overarching governance arrangements are contained in the Departmental Framework. The Departmental Framework sets out how DWP is organised and managed in order to deliver Welfare Reform and its strategic objectives, and was reviewed in 2005. The review included clarification of senior accountabilities and the introduction of revised Departmental decision-making arrangements. The Departmental Framework is in the public domain and can be accessed from the DWP web site, www.dwp.gov.uk.

Departmental decision-making

During 2005 a review of the role of the Departmental Board and Departmental decision-making was undertaken, taking into account the HM Treasury Code of Good Practice for Corporate Governance in central Government Departments. DWP has a Departmental Board (DB) and Executive Team (ET) providing support to the Head of Department. A number of Executive Team sub-committees were established in 2005, each chaired by an ET member. These collective arrangements fulfil the intent of the Code of Good Practice.

Departmental Board

The Departmental Board (DB) supports the Permanent Secretary as Head of Department and is responsible for scrutinising, challenging and providing advice on delivery strategies, plans and programmes, performance and governance arrangements. It has a key role in considering risks to achievement of the Department's objectives, ensuring financial information is reliable and controls robust. The role of DB is primarily advisory and supervisory although it may provide recommendations and direction for consideration by the Head of Department and ET.

The Departmental Board is comprised of Executive and Non-Executive Members, the latter providing external advice, expertise and independent constructive challenge.

The Head of Department appoints Non-Executive Directors to the Departmental Board and to the Departmental Audit Committee. Their role is primarily to:

- provide an independent advisory, support and constructive challenge role to the Head of Department and Executive Team,
- support and monitor the performance and progress of management in meeting targets and objectives and in the overall management of strategic risks,
- seek assurance and evidence that financial information is available and reliable, and that financial controls are robust, and
- seek assurance and evidence that there are sound and robust governance and risk management arrangements in place.

See page 22 for details of DB members.

Executive Team

The Executive Team (ET) supports the Head of Department in managing the Department and its business in line with Ministers' aims and draws on advice and challenge from the Departmental Board. The Executive Team is the Department's senior administrative decision-making body, having a strategic, cross-cutting corporate focus and in providing Departmental corporate leadership. Corporate decision-making rights are set out in the ET terms of reference. See page 22 for details of ET members.

The ET is supported by 6 sub-committees, which take defined delegated decisions, and provide scrutiny and direction to recommendations and initiatives prior to submission for ET decision.

The ET Sub-Committees are:

- **Planning Performance and Risk Committee (PPRC)**

  The purpose of the PPRC is to take decisions, and make recommendations to ET, on:

  - Formulation of corporate level plans;
  - Securing resources under the Spending Review process; and
  - Management of the Department's short, medium and long-term resources, performance and strategic risk.

- **Investment Committee**

  The purpose of the Investment Committee is to:

  - Provide senior management challenge to proposed investments by reviewing value for money on initial approval of a project and where tolerances are breached; and
  - Confirm or otherwise the continued existence of projects and make recommendations.

- **Change Delivery Committee**

  The purpose of the Change Delivery Committee is to support successful delivery of the portfolio of mission critical projects and programmes by:

  - Approving progression of projects at the Critical Design Review stage;
  - Agreeing significant changes to plans and scope; and
  - Resolving cross-cutting issues and conflicting dependencies.

- **HR Strategy Committee**

  The purpose of the HR Strategy Committee is to:

  - Develop strategic people priorities for DWP that deliver business goals;
  - Prioritise key areas for business and HR going forward; and
  - Ensure compliance with HR strategy across DWP.

- **Information Systems and Information Technology Strategy Committee**

  The purpose of the IS/IT Strategy Committee is to:

  - Own, develop and update the Department's IS/IT Strategy framework;
  - Facilitate and monitor the IS/IT Strategy, monitoring its effectiveness; and
  - Ensure that risks to delivery are effectively managed.

- **Communications Strategy and Corporate Reputation Committee (CSCRC)**

  The purpose of the CSCRC is to:

  - Develop and maintain the DWP communication strategy, ensuring it is effectively implemented, with resources, risks and key outcomes regularly monitored and reviewed. A key part of this role is the regular monitoring and review of the Department's corporate reputation.

Departmental Audit Committee (DAC)

The DAC is a permanent sub-committee of the Departmental Board and is chaired by a Non-Executive DB member. The constitution of the Departmental Audit Committee has been revised in 2006 to comprise solely Non-Executive members.

DAC provides an independent view on the appropriateness, adequacy and value for money of the Department's governance, risk and assurance processes. It provides constructive challenge, opinion and advice, taking account of known and emerging risks and reports to the Accounting Officer, at least annually, on the effectiveness of the Department's control environment.

A review of the DWP Audit Committee structure was undertaken during 2005-06 resulting in improved alignment and escalation arrangements between Agency Audit Committees and the Departmental Audit Committee. Terms of reference have been revised accordingly.

Non-Departmental Public Bodies

The Department sponsors a wide range of Non-Departmental Public Bodies (NDPBs) to help it achieve its objectives. A list of these bodies can be found in the Cabinet Office publication *Public Bodies,* which can be found at the following Internet address:

http://www.civilservice.gov.uk/other/agencies/publications/pdf/public-bodies/publicbodies2005.pdf.

The Secretary of State appoints the Chair and members, commissioners or trustees to the Board of each body. These appointments are made in line with the Commissioner for Public Appointments Code of Practice.

The Secretary of State also designates an official within the Department who is responsible for the stewardship of NDPBs. This involves an annual review of the overall strategies, priorities, performance targets and budgets of the NDPBs on the basis of their Business and Corporate Plans.

Each Executive NDPB has a management statement and financial memorandum drafted by the DWP sponsor team in close consultation with the NDPB. The management statement sets out the framework within which the NDPB operates, including aims, objectives and targets; the respective roles and responsibilities of the Department and the NDPB; the planning, budgeting and control arrangements; and how the NDPB will be accountable for its performance.

The remit of each of the Department's NDPBs and membership information can be accessed via links from Annex A of the Department's Annual Appointments Plan, which can be found at the following internet address: http://www.dwp.gov.uk/ndpb/aap-apr06.pdf

Management Commentary

Departmental aim and objectives

The Department for Work and Pensions is responsible for delivering the Government's welfare reform agenda through a radical and far-reaching programme of change. Its principle aim is to **promote opportunity and independence for all.**

The Department will do this by:

- providing help to individuals and supporting the country's economic growth and social cohesion;
- helping individuals to achieve their potential through employment, to provide for themselves, their children and their future retirement; and
- working with others to combat poverty, both of aspiration and outcome.

To support its aim the Department has the following strategic objectives:

- Ensure the best start for all children and end child poverty by 2020;
- Promote work as the best form of welfare for people of working age, while protecting the position of those in greatest need;
- Combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners;
- Improve rights and opportunities for disabled people in a fair and inclusive society; and
- Ensure customers receive a high quality service, including high levels of accuracy.

These objectives are underpinned by the Department's Public Service Agreement that sets out the specific targets that must be met, in return for the resources provided through the Government's Spending Review.

The Department's strategic approach is based around its five objectives. To achieve a fairer and more inclusive society, the Government is moving further away from a passive welfare system to one which encourages the development of potential and supports its realisation across people's lives. The Department recognises that it needs to support people to achieve the best possible outcomes for themselves over the course of longer, active lives.

Tackling the medium and longer-term challenges facing society requires close working between this and other government departments, employers, healthcare providers, those providing opportunity through education and skills, as well as other stakeholders across the economic and social sectors.

The Department's efficiency challenge

The 2004 Budget required the Department to make challenging efficiency savings by 2008, holding the core Departmental Expenditure Limits for 2006-07 and 2007-08 constant in nominal terms at 2005-06 levels. As part of the efficiency savings, the Department is required to achieve a reduction in its workforce of 40,000 posts with redeployment of 10,000 posts to customer-facing roles by April 2008. In conjunction with this, 4,000 posts are being relocated from London and the South East to other regions, in response to the Lyons Review.

By 31 March 2006, the Department had achieved a net headcount reduction of 17,769 posts, re-deployed 6,667 posts to customer-facing roles and relocated 3,257 posts away from London and the South East.

Additionally, the Department has made financial savings amounting to £866 million.

Organisation

The Department is organised to deliver effectively and efficiently the outcomes determined by Ministers, building on its Five Year Strategy *Opportunity and security throughout life* (CM 6447 February 2005), and meeting its Public Service Agreement. The Department is structured to discharge four key roles:

- Development of department-wide strategy, planning, resource allocation, and corporate policies and standards.
- Identification of effective strategies, policies, resource allocation and approaches to service delivery that best meet the needs of particular client or customer groups which the Department serves.
- Direct delivery of services to meet specified customer outcomes for particular clients/customers.
- Where it is most cost-effective to do so, procurement and/or delivery of shared services and infrastructure on a department-wide basis.

In the main, the Department's services to customers are provided by or through its executive agencies.

1. **Jobcentre Plus** – helping people to find work and receive the benefits they are entitled to, and offering a service to employers to fill their vacancies quickly and successfully.
2. **The Pension Service** – delivering frontline services to today's and future pensioners.
3. **Child Support Agency** – administering the Child Support Scheme.
4. **Disability and Carers Service** – delivering a range of benefits to disabled people and carers.
5. **Appeals Service** – providing an independent tribunal body for hearing appeals. (The Appeals Service transferred to the Department for Constitutional Affairs on 1 April 2006).
6. **The Rent Service** – providing a range of advice in connection with the private rented housing sector in England.

The Department also has ministerial responsibility for the Health and Safety Commission/Executive, whose mission is to protect people's health and safety by ensuring that risks in the changing workplace are properly controlled.

Additionally, the Department is jointly responsible with the Department for Education and Skills for the Sure Start Unit, which develops policies and services to expand childcare and help parents into work in England.

Many of the Department's services are delivered jointly with a wide range of partner organisations, for example Housing Benefit and Council Tax Benefit are administered by local authorities.

The Department's Executive Team, led by the Permanent Secretary and comprising Policy Directors General, Chief Executives and Functional Directors General, oversees and manages the whole organisation.

Delivery of the Departmental Public Service Agreement is the responsibility of all parts of the Department working together.

Principal activities for achieving the Department's objectives in 2005-06

The principal activities of the Department during 2005-06 were:

- to develop policies, strategies and plans to meet the Government's agenda through the publication of the Welfare Reform Green Paper and through the National Pensions Debate;
- to provide a range of services to both jobseekers and employers, contributing to high employment and low unemployment rates, through more than 700 integrated Jobcentre Plus sites and a decreasing number of Jobcentres and Social Security offices, and also by working in partnership with other organisations;
- to assess and deliver other social security benefits relating to the Department's objectives, and to support housing and council tax benefits delivered by local authorities;
- to assess, collect and arrange child support maintenance, ensuring parents maintain their children wherever they can afford to do so;
- to continue to improve and modernise services for today's and future pensioners, tailoring services to meet customers' needs and improving efficiency;

- to establish the new Office for Disability Issues and take forward the extended rights of disabled people through the Disability Discrimination Act 2005;
- to build on investment in the modernisation of the Department's office network and IT systems to drive forward delivery of its objectives through becoming a more efficient, customer-focused organisation; and
- to continue to demonstrate the Department's active support of the objectives of the *UK Strategy for Sustainable Development – Securing the Future*. The Department updated its Sustainable Development Policy Statement (www.dwp.gov.uk/sus-dev/documents/policy.pdf) in September 2005, and its 23-point Action Plan was produced in December 2005 (www.dwp.gov.uk/sus-dev/documents/sd-action-plan-2005.pdf).

Measuring achievement of objectives

Achievement is measured through monitoring the Department's progress against its Public Service Agreement targets, and through the more detailed performance targets set by the Secretary of State for individual agencies and businesses. Performance is formally reported in the Departmental Report, Autumn Performance Report and Agency Reports and Accounts, as well as through regular performance updates on HM Treasury's website, www.hm-treasury.gov.uk/performance.

Overall performance in 2005-06

During 2005-06, the Department continued to deliver its programme of welfare reform, to work towards the delivery of its 2002 Spending Review (SR02) Public Service Agreement targets and to develop strategies, policies and plans to achieve its objectives into the period covered by the 2004 Spending Review (SR04).

Some final assessments have been made for SR02 targets. Of these, the target to pay benefit through bank accounts was met early and the target to improve disability rights was met on time, while the child poverty target, the child support target and the Pension Credit take-up target were not met. Final assessments for the other SR02 targets will be published in the 2006 Autumn Performance Report.

Assessments for some of the SR04 targets were published in the Departmental Report in May 2006, and formal assessments for all targets will be published in the Autumn Performance Report later in the year. So far, indications are that the Department is making good progress with its employment targets, with childcare and with pension forecasting. Where missed targets from SR02 have been carried forward, the Department is working to recover lost ground.

Significant aspects of performance were:

- The target to reduce child poverty by a quarter was narrowly missed, with a reduction of 23% on a before housing costs basis, and 17% on an after housing costs basis.
- Although progress with improving the Child Support Agency's IT system has been made, it was not possible to complete the conversion of old scheme cases to the new scheme during the year. An Operational Improvement Plan was published in February 2006, and Sir David Henshaw was appointed to carry out a fundamental redesign of child support policy and delivery mechanisms.
- Active labour market policies, New Deal programmes and other initiatives contributed to the highest employment and lowest unemployment levels in the G7 countries.
- Progress in improving the employment rates of disadvantaged groups has continued.
- Pathways to Work pilots have continued to show encouraging results.
- The continuing rollout of Jobcentre Plus integrated offices had reached over 700 sites by March 2006.
- The National Pensions Debate – a national consultation culminating in National Pensions Day on 18 March 2006 – achieved major success in building a consensus on pension reform.
- Pension Credit take-up increased after a direct mail initiative targeted 1.5 million people identified by data matching as most likely to be missing out.
- Since December 2005, people contacting the Pension Credit Application Line have been able to make a claim for Housing Benefit or Council Tax Benefit at the same time.

- The Pension Service issued 8.7 million Automatic Pension Forecasts to individuals, exceeding the target of 8 million, in 2005-06.
- The provisions of the Disability Discrimination Act 2005 are being progressively implemented, substantially increasing the rights of disabled people and extending protection to a wider range of areas.
- Levels of fraud and error in Income Support and Jobseeker's Allowance have reduced by 44% between 1997 and 2005. Fraud is now at its lowest-ever level at an estimated 0.7% of benefit expenditure.
- In December 2005, the Department began to implement an integrated finance, procurement, human resources and payroll system, reflecting the significant investment being made to improve operational efficiency, control and decision-making.
- The Department made the biggest contribution to the Office for Government Commerce targets to deliver value-for-money gains, delivering 29% of the total gains reported by all Departments.
- Continued progress with sustainable development initiatives.
- The Department spent an estimated £175 million on learning and development in 2005-06. Its strategy is aligned with the Civil Service-wide Professional Skills for Government initiative.

Financial Position and Results for the Year

Supply Procedure

Supply Estimates are a request by the Executive to Parliament for funds to meet most expenditure by Government departments and certain related bodies. When approved by the House of Commons, they form the basis of the statutory authority for the appropriation of funds and for the Treasury to make issues from the Consolidated Fund. Statutory authority is provided annually by means of Consolidated Fund Acts and by an Appropriation Act. These arrangements are known as the "Supply Procedure" of the House of Commons.

Certain expenditure may be outside the Supply Procedure and, where Parliament gives statutory authority, will be charged directly to the Consolidated Fund. Alternatively, a statutory fund will be set up to finance the service, as in the case of the National Insurance Fund.

As a Government Department, the DWP is accountable to Parliament for its expenditure. Parliamentary approval for its spending plans is sought through Supply Estimates presented to the House of Commons.

The Department is subject to gross expenditure control under the Parliamentary Vote system and has one Vote which is constructed on a resource account basis and is analysed by Request for Resources (RfR). Each RfR includes a formal description (ambit) of the services to be financed by each RfR and Voted money cannot be used to finance services not covered by the ambit.

Financial Position (Balance Sheet)

The Department's activities are financed by Supply voted by Parliament and financing from the National Insurance Fund.

The Balance Sheet is dominated by debtors of £3.9 billion and creditors of £3.8 billion which consist mainly of amounts due to or from the Department in respect of benefit payments and European Social Fund claims.

Also of significance are the tangible assets of £967.2 million which are comprised mainly of leasehold improvements of £579.5 million and IT related assets of £288.5 million. Leasehold improvements consist of expenditure in respect of major capital refurbishment and improvement of properties occupied but not owned by the Department. IT related assets consist of hardware with a net book value of £120.6 million and software both under development and in use amounting to £167.9 million (see note 21).

In addition, the Department has an on-balance sheet PFI contract in respect of accommodation for laboratory and support functions within HSE. The purchase of the building is represented on the balance sheet by a long-term liability to the value of £59.1 million.

Results for the year (Operating Cost Statement)

The Operating Cost Statement reports the net total administration and programme resources consumed during the year by Request for Resource.

The results for the year included in the Operating Cost Statement are as follows:

- Net Operating Cost amounting to £123.1 billion (2004-05 £118.7 billion).
- Gross payments of social security benefits administered by the Department amounting to £117.8 billion (2004-05 £113.2 billion) (see note 13).
- Included within Gross payments are payments made by the Department of £0.5 billion (2004-05 £0.5 billion) on behalf of the European Social Fund.

Comparison of Outturn against Estimate (Statement of Parliamentary Supply)

The Statement of Parliamentary Supply provides information on how the Department has performed against the Parliamentary and Treasury control totals against which it is monitored. This information is supplemented by Note 2 which reports Outturn in the same format as the Supply Estimate.

In 2005-06 the Department met all of its control totals mostly within small margins and these are detailed below together with explanations where these are over 10%:

- Resource Departmental Expenditure Limit (DEL) – Outturn was £8.4 billion, within 1.7% of the Estimate.
- Capital DEL – Outturn was £0.4 billion which was 15.4% below the Estimate; the main element of this being related to rephasing of the Department's expenditure on its Change Programme.
- Near Cash in Resource DEL – Outturn was £8.1 billion, within 3.7% of the Estimate.
- Administration Cost Limit – Outturn was £5.9 billion, within 1.4% of the Estimate.
- Net Cash Requirement – Outturn was £63.4 billion, within 1.2% of the Estimate.
- In addition the outturn on each Request for Resources (RfR) was within its control total as follows:

  RfR1 (Children) – Outturn within 3.1% of Estimate;

  RfR2 (Working Age) – Outturn within 1.3% of Estimate;

  RfR3 (Pensions) – Outturn within 1.1% of Estimate;

  RfR4 (Disability) – Outturn within 0.4% of Estimate;

  RfR5 (Corporate) – Outturn within 2.9% of Estimate.
- The total voted net resource outturn was £62.4 billion, within 1.1% of the Estimate. The under spend of £0.7 billion is made up of £0.1 billion DEL and £0.6 billion AME. The full analysis of expenditure by Estimate line is provided in Note 2. Explanations of some of the more notable variances are as follows:

Estimate Line	Limit £000	Outturn £000	Variance (Over)/ Under £000	Explanation of variance
RfR1 A (Children) DEL – Administration	410,212	397,709	12,503	DEL underspend relates to the delayed implementation of the CSA Operational Improvement Plan
RfR2 B (Working Age) DEL – Employment programmes	1,024,111	966,235	57,876	Underspend on Jobcentre Plus Change Programme
RfR2 G (Working Age) DEL – European Social Fund	33,614	159,940	(126,326)	Overspend on European Social Fund caused by losses on programme work
RfR2 R (Working Age) AME – Income Support (under 60)	9,130,069	9,060,874	69,195	Underspend on Income Support due to lower than expected lone parent caseload
RfR2 Y (Working Age) AME – Housing Benefit and council tax benefit subsidies	12,172,789	12,115,501	57,288	Lower than anticipated expenditure by Local Authorities on Housing and Council Tax Benefit subsidies and Rent Rebates for temporarily homeless tenants
RfR2 Z (Working Age) AME – Rent rebates	5,224,387	5,050,727	173,660	
RfR3 B (Pensions) AME – Pension benefits	1,174,059	1,215,228	(41,169)	Overspend on age-related payments due to more people receiving a full payment than was forecast as they lived alone; caseload was lower than forecast during the qualifying week, resulting in more higher-rate payments than expected
RfR3 C (Pensions) AME – Income Support for the elderly and Pension Credit	6,593,187	6,508,526	84,661	Underspend on Pension Credit due to lower than expected caseload
RfR3 E (Pensions) AME – Payments to the Social Fund	2,371,647	2,304,694	66,953	Anticipated Winter Fuel and Cold Weather payments did not materialise as weather conditions were better than forecast
RfR4 D (Disability) AME –Disability Living Allowance	8,648,508	8,618,262	30,246	Underspend relates to slower than anticipated growth in the number of new awards for Disbaility Living Allowance and Carer's Allowance
RfR4 E (Disability) AME – Carer's Allowance	1,193,773	1,149,141	644,632	
RfR5 A (Corporate) DEL – Administration	2,142,722	2,081,862	60,860	Underspend largely caused by rephasing of expenditure on Early Release Fund and Corporate Change Programme

Cash Flow Statement

The Cash Flow Statement provides information on how the Department finances its activities. The main sources of funding are the Consolidated Fund and the National Insurance Fund.

The Cash Flow Statement shows a net cash outflow from operating activities of £124.0 billion compared to a cash outflow in 2004-05 of £117.3 billion. The change is mainly due to the increase in net operating costs of the Department from £118.7 billion to £123.1 billion.

The £297.5 million net cash outflow on investing activities consists mainly of expenditure on fixed asset additions of £295.2 million, the major items being software development, classified as Assets under Construction and Leasehold Improvements.

There has been an increase in receipts due to the Consolidated Fund, which has arisen as a result of exchange rate gains in relation to the European Social Fund.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives

This statement reports expenditure by Departmental Objective. European Social Fund expenditure is excluded as this is outside of the Department's control and does not contribute to the overall objectives. The basis of allocation and apportionment of administration and programme expenditure is provided in Note 33.

Prior Year Comparatives

Comparative figures within the Account have been restated to take account of changes to the general ledger structure following the introduction of the Resource Management System. In addition Parliamentary control schedules have been affected by the move from 6 RfRs to 5 RfRs.

Investment

The Department's Investment Strategy (www.dwp.gov.uk/publications/dwp/2005/invest_strategy.pdf) is primarily focused on bringing about significant improvements in both customer service and operational efficiencies, with investment incurred principally in two areas.

Firstly, a huge programme to provide modern, fit-for-purpose information technology and information systems, for example the Department's payment modernisation programme has resulted in more than 22.5 million accounts being paid by direct payment at a fraction of the cost of the old order book system. The Department's support services are also being modernised, including new service delivery models for Finance and Human Resources, with streamlining of processes such as data input, use of electronic media and improved IT functions.

Secondly, strategic investment in the Department's estate provides a far more welcoming environment for those clients who receive their customer service in person. The roll-out of Jobcentre Plus, for example, continues to deliver improved efficiency at the same time as customer satisfaction levels are on the rise. By mid-2006, the Department will have replaced more than 1,500 former Jobcentres and Social Security offices with 880 Jobcentre Plus sites. Processing work for Jobcentre Plus and the Pension Service will be carried out in just 77 central sites by the end of 2006, down from 650.

In the area of information systems and telephony there continues to be rapid advancement in technology and software. The strategy recognises the need to stay up-to-date and make provision in future years to refresh the infrastructure.

Strategic investment is managed through a number of mission-critical projects with progress being monitored on a monthly basis. Revised Corporate Governance arrangements now include a Departmental Investment Committee, which scrutinises proposed and revised investments and a Change Delivery Committee, which monitors the progression of projects at the Critical Design Review Stage.

Investment plans for the 2004 Spending Review period (SR04)

	2005-06	2006-07	2007-08	SR 04
Level of Investment (£ million)	1,126	1,404	676	3,206

(Note: Includes all Departmental Capital forecasts and Change Programme "One off" resource forecasts as at 31 December 2005.)

Departmental reporting cycle

The DWP Main Estimate for 2005-06 was published in April 2005 as part of the Central Government Supply Estimates 2005-06 Main Supply Estimates (HC 2). The Department also applied for Winter and Spring Supplementary Estimates, details of which are available in the Central Government Supply Estimates 2005-06 Winter Supplementary Estimates (HC 672) and the Central Government Supply Estimates 2005-06 Spring Supplementary Estimates (HC 827).

The Department also produces an annual Autumn Performance Report, which provides an update on progress against PSA targets since the preceding Spring Departmental Report. The Department's fourth Autumn Performance Report (Cm 6715) was published in December 2005.

The annual Spring Departmental Report covers expenditure, progress towards the Department's Public Service Agreement (PSA) targets and other activities in support of the Department's objectives, including information relating to the Department's Agencies and associate bodies. The latest Departmental Report (Cm 6829) which was published in May 2006, presented the Department's expenditure plans for 2006-07 to 2007-08, outturn expenditure for 2004-05 and estimated outturn for 2005-06.

The above reports are in the public domain and can be accessed from the DWP web site, www.dwp.gov.uk

Debt Qualification

The Department carried out significant work in 2005-06 on the three aspects of the debt qualification: existence, valuation and completeness.

To address the existence of debt, the introduction in 2005-06 of the new Debt Manager system to provide a full audit trail to new and recent debts was complemented by the articulation of a benefit overpayment debt accounting policy stating, amongst other things, that the Department regards debt notification letters as evidence of the existence of a debt.

For valuation of debt, the Department migrated customer overpayment debt balances from its existing debt IT systems to Debt Manager, creating a single customer overpayment debt record to provide an audit trail to debt valuation and recoveries at an individual customer level. The aim has been to provide better assurance over the existence and valuation of the debt figure recorded in the balance sheet.

On the hidden debt aspect of completeness of debt, Jobcentre Plus and Risk Assurance Division confirmed, based on a sample of cases from the Income Support Computer System (ISCS) and Job Seekers' Allowance Payments System (JSAPS), significant volumes of cases in JCP that had not been referred to Debt Management. The Department will factor these findings into revised referral targets from JCP to Debt Management to ensure the timely referral of potential overpayment cases.

Public Interest and Other

Employment of disabled persons

People with disabilities, as defined in the Disability Discrimination Act 1995, are employed across all grades within the Department. The Department aims to improve the level of knowledge and understanding throughout its business in order to improve services for disabled staff and customers and undertakes reasonable adjustments to the working environment where necessary.

Committed to Equality and Valuing Diversity

The Department seeks to actively promote a culture which embraces diversity and promotes equality of opportunity. As an employer, the Department seeks to recruit a diverse and talented workforce that is representative of the society it serves. Its goal is to ensure that these commitments, reinforced by its Values, are embedded in its day-to-day working practices with all its customers, colleagues and partners.

Employee Involvement

Staff have access to welfare services which support staff and managers and promote well-being in the workplace.

Staff also have access to trade union membership.

The Department has procedures for consulting its trade unions and supports staff representation in the workforce by trade union representatives.

In 2005-06 the Department reviewed its arrangements for consulting and keeping the trade unions up to date on developments and has consulted them extensively on a range of major issues, including its workforce planning programme and the efficiency challenge. The early part of 2006 was marked by industrial action by one of the three trade unions. The Department intends to continue actively seeking to build a better working relationship with them.

The Department actively communicates with staff and is committed to ensuring that staff at all levels can contribute towards decisions affecting the day-to-day business of the Department.

Sustainable Development

The Department continues to demonstrate its active support to the objectives of the *UK Strategy for Sustainable Development – Securing the Future* www.sustainable-development.gov.uk/publications/uk-strategy/index.htm. In September 2005, the Department produced a revised *Sustainable Development Policy Statement*, demonstrating commitment to the key priorities and principles of the new strategy. The Department's 23-point plan to deliver on its commitments, entitled *Delivering Sustainable Development – DWP Action Plan,* was produced in December 2005.

Communication with other government departments is maintained by active involvement in cross-government bodies such as the Sustainable Operations Board and the Sustainable Development Forum, to enable the development of government-wide targets and sharing of best practice.

One of the corner stones of incorporating sustainable development into routine business is that it is habitually addressed during all decision making processes. The Sustainable Development Minister hosted a conference for senior managers in January 2006 to further develop knowledge and understanding of what is required of decision makers.

Staff engagement is also key to delivering the objectives and to embedding sustainable development in to all Departmental functions. A variety of methods have been employed to capture staff interest on a broad basis.

The Department has introduced several initiatives in support of its policy for sustainable development:

- Gradually moving away from paper-based communications;
- Making efforts to reduce carbon emissions from travel through improvements in fleet cars, with an increasing number of alternatively fuelled cars and a reduction in mileage;
- Securing 60% of electricity supplies from renewable sources. The electricity has been generated from various sources, including wind, landfill gas and combined heat and power;
- Working towards a reduction in water consumption; and
- Continuing to increase the percentage of waste being recycled, which currently stands at 52%.

The Department's achievements were recognised externally by Building Magazine's *Sustainable Client of the Year* award and the award of a Green Apple (Gold) for Environmental Best Practice. Further achievements and progress are reported annually in the *DWP Sustainable Development Annual Report,* www.dwp.gov.uk/sus-dev/2005/sus-dev05.pdf.

Payment to Suppliers

The Department is committed to the prompt payment of bills for goods and services received. Payments are normally made as specified in the suppliers' contract. If there is no contractual provision or other understanding, the Department aims to make all payments not in dispute within 30 days of the receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later. A review of all payments made during the year, conducted to measure how promptly the Department pays its bills, found that 89.80% (2004-05 96.28%) of bills were paid within this standard. This year's Payment of Bills performance reverses the upward trend achieved in previous years. In late 2005 and early 2006 the Department's two separate admin payment systems were replaced by a modern Oracle based Resource Management system. Whilst it is anticipated that in the longer term this system will bring significant advantages, the achievement of prompt payments using this new system has been affected by initial system problems and users coming to terms with the new payment processes. Work is on-going with the supplier to resolve system issues and we are also working with the users of the system and providing further guidance to ensure delays are not caused by incorrect application of processes.

The "Late Payment of Commercial Debts (Interest) Act 1998" and the "Late Payment of Commercial Debts Regulations 2002" provides all businesses and public sector bodies with the following entitlements:

(i) the right to claim interest for late payment;

(ii) the right to claim reasonable debt recovery costs, unless the supplier has acted unreasonably;

(iii) the right to challenge contractual terms that do not provide a substantial remedy against late payment; and

(iv) the right for "representative bodies" to challenge contractual terms that are grossly unfair on behalf of small and medium sized enterprises.

There were interest charges of £924.45 arising and payable by the Department during the year (2004-05 £5,935.49). These charges are included within goods and services as part of other administration costs, which are reported at Note 9.

Introduction of the Euro

The Department continues to maintain its changeover planning and preparation activities such that, in the event of a positive decision to join the Single European Currency, the changes required to the computer systems, business systems and products will have been identified and quantified to enable the Department to meet the timescales set out in HM Treasury's Third Outline National Changeover Plan.

External Audit

These accounts have been audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000. His certificate and report appear on pages 34 to 40.

The cost of audit work was £1,981,000, which solely related to statutory audit services. This included actual costs of £83,000 (see Note 9) and notional costs of £1,898,000 (see Note 11) and represents a 25% increase over 2004-05.

Value for Money studies are ongoing in the following areas:

- Child Support Agency – implementation of the child support reforms;
- Progress in Tackling Pensioner Poverty: encouraging take up of entitlements;
- International benchmark of fraud and error in social security systems; and
- Jobcentre Plus: Getting the best out of Personal Advisors.

So far as I am aware, there is no relevant audit information of which the Department's auditors are unaware. I confirm that I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.

Leigh Lewis
Accounting Officer

2 November 2006

Remuneration Report

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances, on Peers' allowances, and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In reaching its recommendations, the Review Body has regard to the following considerations:

- The need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- Regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- The funds available to departments as set out in the Government's Departmental Expenditure Limits;
- The Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Details of the service contract for each member of the Department's Executive Team are shown on page 21.

Methods used to assess performance

There are four stages involved in the assessment of performance:

(i) Self assessment.

(ii) Performance Review Discussion with Line Manager.

(iii) Relative Assessment Peer Group.

(iv) Pay Committee.

How these operate in practise is explained below.

(i) Although there is no requirement to formally record a self assessment, Senior Civil Service (SCS) members are encouraged to consider their own assessment in preparation for their performance review discussion. They would reflect on and collect a reasonable amount of examples or evidence that would be helpful in assessing their contribution in relation to the measures and required outcomes they signed up to either at the beginning of the year or as their role developed during the year.

(ii) The performance review discussion is an opportunity for the SCS member and their line manager to address performance in relation to:

- the achievement of objectives;
- contribution to organisational objectives;
- growth in competences; and
- the application of skills and knowledge.

They will also discuss issues for the forthcoming year, which would include:

- the objectives for the forthcoming year;
- the range of sources to be used in assessing their performance in the forthcoming year; and
- the potential and development needs of the SCS member.

This discussion, once documented, is reviewed by a countersigning officer and returned to the SCS member before referral to a relative assessment peer group. Countersigning Officers have an important role in performance review in helping to ensure consistency in relative assessment.

To ensure consistency within each business area of the Department, Countersigning Officers or Business Heads will hold discussions with their reporting teams at the outset to ensure consistent interpretation of relative assessment and bonus criteria for SCS staff within their command.

In order to maximise consistency in standards across Businesses, and to better inform the Pay Committee, Business Heads or senior Directors may confer with other similar Businesses to provide a wider benchmark for staff.

(iii) The performance of individual staff will be relatively assessed against peers within the same pay band within the following performance profile:

Tranche	Percentage of Staff
Top	25
Middle	65-70
Lower	5-10

(iv) The terms of reference for the Pay Committee are:

- to consider line managers' recommendations for tranche allocation and award of bonus;
- to assess the relative contribution of SCS members; and
- to make final pay decisions.

The Pay Committees are comprised of:

Pay Strategy Committee
Leigh Lewis (Chair)
Kevin White
Lesley Strathie
Mike Sommers (Non-Executive Director)

Pay Band 1 and 2 Pay Committees
Leigh Lewis (Chair)
Lesley Strathie
Phil Wynn Owen
Adam Sharples
Paul Jenkins
Stephen Geraghty
Joe Harley
Kevin White
John Codling
Alexis Cleveland
Mike Sommers (Non-Executive Director)

Pay Band 3 Pay Committee
Leigh Lewis (Chair)
Richard Mottram
Mike Sommers (Non-Executive Director)

After the end of year performance review, the Pay Committees will consider line managers' pay recommendations, assess the relative contribution of those in the pay band and make final base pay and bonus decisions. When their final pay decisions have been made the Pay Committee's decision will be communicated in writing. Pay recommendations are not communicated to individuals before they are considered by the Pay Committee. However, where the Pay Committee change a recommendation, the individual will be informed of the original and final markings following the Pay Committee meeting.

Relative importance of relevant proportions of remuneration which are subject to performance conditions

There are two financial elements to the remuneration paid to SCS members:

(i) Base Pay; and

(ii) Bonus payment.

Both elements are linked to performance but are considered and awarded separately.

(i) Departments have discretion to vary the level of award within each tranche for individual staff. However, it is a central requirement that awards must enhance progression for those lower down the pay bands with similar levels of performance to those higher up the pay bands. Base pay awards reward value or contribution which is determined by:

- Competence the individual brings to the job;
- Challenge of the job;
- Sustained performance, as an indicator of future performance;
- Progression based on individual growth in value or contribution; and
- Any emerging pay anomalies.

All awards must fall within the range recommended by the Senior Salaries Review Body (SSRB) and within an overall cost envelope.

Increases will be awarded on a continuum basis for Pay Band 1 for each tranche, according to the precise position on the pay range. Precise details of the specific parameters for the Department's base pay will be available after the relative assessment profile has been produced.

(ii) Bonuses are intended to reward and provide incentives for in-year delivery of key results. The bonus pot is set by the SSRB as a percentage of the Department's SCS pay bill. To encourage greater differentiation of bonus payments the minimum bonus for 2006 will be £3,000. Bonuses will be awarded to between 60%-75% of SCS staff. Bonuses will be awarded on a flat rate basis. These will generally reflect three different levels of achievement in each pay band.

Departments have flexibility to award bonuses to staff in any of the tranches. However bonuses are intended to reward excellent achievement so these will mostly go to those in the top tranche and to the strongest performers in tranche 2. Line managers will be asked to suggest an Outstanding, High, Medium or no bonus award for each SCS member.

People not in high profile posts should be given equal opportunity in relative assessment and bonus recommendations even though their work may not be explicitly linked to a PSA objective or be in an area which is high on the political agenda.

Policy on notice periods and termination payments

Standard SCS Notice Period

Notice

(a) Because of the power of the Crown to dismiss at will, an SCS member is not entitled to a period of notice terminating their employment. However, unless employment is terminated by agreement, in practice, they will normally be given the following periods of notice in writing terminating employment:

(i) if retired on age grounds, if dismissed on grounds of inefficiency, or if dismissal is the result of disciplinary proceedings in circumstances where summary dismissal is not justified:

- Continuous service up to 4 years, a notice period of 5 weeks; and
- Continuous service of 4 years and over, a notice period of 1 week plus 1 week for every year of continuous service up to a maximum of 13 weeks.

(ii) if retired on medical grounds, the period of notice as above or, if longer, 9 weeks, unless a shorter period is agreed.

(iii) if employment is terminated compulsorily on any other grounds, unless such grounds justify summary dismissal at common law or summary dismissal is the result of disciplinary proceedings, a notice period of 6 months applies.

On the expiration of such notice, employment will terminate.

There will be no notice if an individual agrees to flexible or approved early retirement or voluntary redundancy.

(b) If employment is terminated without the notice which it is stated in (a) would in practice normally be given, having regard to the reason for such termination, compensation will be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

(c) Unless otherwise agreed, an individual is required to give 3 months' written notice to the Group HR Director, if they wish to terminate their employment.

Compensation for early termination is based upon the standard SCS terms and conditions as set out in the SCS Contracts. An extract of this is shown below.

Other Compensation for Compulsory Early Termination of Contract

(a) If employment is terminated prior to the end of the fixed period without the notice which it is stated above would in practice normally be given, having regard to the reason for such termination, compensation will be paid in accordance with the relevant provision of the Civil Service Compensation Scheme.

(b) The provisions of the Civil Service Compensation Scheme relating to fixed term appointments apply if the contract is terminated for reasons of redundancy or for reasons of structure or limited efficiency:

Structure: Structure denotes severe management problems eg serious promotion blockage or other situations creating managerial or organisational difficulties which impair the efficient working of the Department.

Limited Efficiency: if performance falls below the required standard an individual may be retired on grounds of limited efficiency.

(c) If performance is so unsatisfactory as to warrant the use of inefficiency procedures and an individual is dismissed for inefficiency, the Department has discretion, in certain circumstances, to award compensation under the Civil Service Compensation Scheme.

(d) **Medical Retirement:** If an individual is a member of the PCSPS or the partnership pension account, they may be retired on medical grounds and eligible for payment of ill health retirement benefits. The Civil Service Pensions Division of the Cabinet Office sets the criteria for medical retirement. The present criteria for medical retirement are that the breakdown in someone's health is such that it prevents them from carrying out their duties and that the ill-health is likely to be permanent.

Details of the service contract for each Executive Team member who has served during the year

The main details of service contracts are included in the table shown below.

Officials	Date of appointment	End date of term	Unexpired Term
			Years
Sir Richard Mottram Permanent Secretary	30/05/2002	14/11/2005	N/A
Leigh Lewis Permanent Secretary	14/11/2005	N/A	N/A
Phil Wynn Owen	15/11/2004	N/A	N/A
David Anderson	02/06/2003	15/05/2005	N/A
Lesley Strathie	16/05/2005 13/10/2005	12/10/2005 N/A	N/A N/A
Alexis Cleveland	01/04/2002	N/A	N/A
Stephen Geraghty	01/04/2005	31/03/2008	2.03
Terry Moran	14/06/2004	N/A	N/A
Adam Sharples	06/09/2004	N/A	N/A
John Codling	01/12/2001	N/A	N/A
Kevin White	29/11/2001	N/A	N/A
Joe Harley	28/07/2004	27/07/2009	3.12
Simon MacDowall	01/05/1999 24/05/2006	23/05/2006 01/10/2006	0.15 N/A
Paul Jenkins	02/04/2002	31/07/2006	N/A

Where the end date of term is shown as N/A, this denotes that their appointment is on a permanent basis.

Details of any element of the remuneration package which is not cash

There are a small number of Executive Team members who receive benefits in kind. These take the form of payment for chauffeur-driven cars by DWP. The amounts involved are disclosed in the salary, allowances and taxable benefits table.

Ministers and Executive Team

The following held ministerial office during the year with responsibilities as shown:

Rt Hon Alan Johnson MP	Secretary of State for Work and Pensions to 6 May 2005
Rt Hon David Blunkett MP	Secretary of State for Work and Pensions from 6 May 2005 to 2 November 2005
Rt Hon John Hutton	Secretary of State for Work and Pensions from 3 November 2005
Jane Kennedy MP	Minister of State (Minister for Work) to 9 May 2005
Malcolm Wicks MP	Minister of State (Minister for Pensions) to 9 May 2005
Mr Stephen Timms MP	Minister of State (Minister for Pensions Reform) from 10 May 2005
Rt Hon Margaret Hodge MP MBE	Minister of State (Minister for Employment and Welfare Reform) from 10 May 2005
Rt Hon Baroness Hollis of Heigham	Parliamentary Under-Secretary (Lords) to 9 May 2005
Lord Hunt of King's Heath	Parliamentary Under-Secretary (Lords) from 10 May 2005
Mr Chris Pond MP	Parliamentary Under-Secretary of State to 6 May 2005
Maria Eagle MP	Parliamentary Under-Secretary of State (Minister for Disabled People) to 9 May 2005
Mr James Plaskitt MP	Parliamentary Under-Secretary (Commons) from 10 May 2005
Mrs Anne McGuire MP	Parliamentary Under-Secretary (Minister for Disabled People) from 10 May 2005

With effect from 5 May 2006, Stephen Timms and Margaret Hodge were replaced by James Purnell MP and Jim Murphy Esq MP, respectively.

The composition of the Executive Team during the year was as follows:

Sir Richard Mottram*	Permanent Secretary and Head of Department to 13 November 2005
Leigh Lewis*	Permanent Secretary and Head of Department from 14 November 2005
Phil Wynn Owen	Director General, Strategy and Pensions
David Anderson*	Jobcentre Plus Chief Executive to 13 May 2005
Lesley Strathie	Jobcentre Plus Chief Executive from 16 May 2005
Alexis Cleveland*	The Pension Service Chief Executive
Stephen Geraghty	Child Support Agency Chief Executive from 1 April 2005
Terry Moran	Disability and Carers Service Chief Executive from 16 December 2005
Adam Sharples	Director General for Work, Welfare and Equality
John Codling*	Finance Director General
Kevin White	Human Resources Director General
Joe Harley	DWP IT Director General and Chief Information Officer
Simon MacDowell	Communications Director
Paul Jenkins	Head of Law, Governance and Special Policy Group – The Solicitor

Departmental Board

*The above members of the Executive Team are or were also members of the Departmental Board. In addition, there were 5 Non-Executive Members of the Departmental Board as follows:

Bridget Rosewell	Non-Executive Member to 22 July 2005
Graham Stow	Non-Executive Member to 24 October 2005
Michael Sommers	Non-Executive Member
Paul Gray	Non-Executive Member
John Cross	Non-Executive Member

Company Directorships

Sir Richard Mottram is a Governor of Ashridge and a Council Member of the Ditchley Foundation.

David Anderson is Director of Bradford Centre Regeneration Limited.

John Cross serves on the following Boards:

ServiceTec Inc. (Non-Executive Director)
ICEX Inc. (Non-Executive Board Member)
Mastek Inc (Advisor to the Board)

Bridget Rosewell is the Chairman of Volterra Consulting.

Graham Stow serves on the following Boards:

Home and Legacy Insurance Services Ltd (Non-Executive Chairman)

Co-Operative Financial Services, Co-Operative Bank, Co-Operative Insurance Services and CISGL (Non-Executive Director)
Northern Racing (Non-Executive Chairman)
Second World War Experience Centre (Director and Trustee)

Michael Sommers is a Non-Executive Director of Ordnance Survey, Southampton.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and most senior officials of the Department. None of the Department's Ministers received benefits in kind.

Remuneration

	2005-06		2004-05
	Salary	Full Year Equivalent	Salary
Ministers	£	£	£
Rt Hon Alan Johnson MP *Secretary of State* (to 6 May 2005)	7,450	74,902	41,376
Rt Hon David Blunkett MP *Secretary of State* (from 6 May to 2 November 2005)	57,133	74,902	–
Rt Hon John Hutton MP *Secretary of State* (from 3 November 2005)	24,967	74,902	–
Jane Kennedy MP *Minister of State* (to 9 May 2005)	6,476	38,854	34,878
Malcolm Wicks MP *Minister of State* (to 9 May 2005)	6,476	38,854	37,806
Mr Stephen Timms MP *Minister of State* (from 10 May 2005)	32,378	38,854	
Rt Hon Margaret Hodge MP MBE *Minister of State* (from 10 May 2005)	32, 378	38,854	–
Rt Hon Baroness Hollis of Heigham *Parliamentary Under Secretary (Lords)* (to 9 May 2005)	28,268	102,138	97,553
Lord Hunt of King's Heath *Parliamentary Under-Secretary (Lords)* (from 10 May 2005)	91,815	102,000	
Mr Chris Pond MP *Parliamentary under Secretary of State* (to 6 May 2005)	10,306	36,864	29,535
Maria Eagle MP *Parliamentary under Secretary of State* (to 9 May 2005)	4,915	29,491	28,698
Mr James Plaskitt MP *Parliamentary under Secretary of State (Commons)* (from 10 May 2005)	26,320	29,491	–
Mrs Anne McGuire MP *Parliamentary under Secretary of State* (Minister for Disabled People) (from 10 May 2005)	24,576	29,491	–

This report is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£59,095, 2004-05 £57,485) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Officials	Salary Including Bonus	Allowances and Taxable Expenses	Benefits in Kind *	Total	Full Year Equivalent (FYE)	Total
	2005-06					2004-05
	£000	£000	(to nearest £100)	£000	£000	£000
Sir Richard Mottram *Permanent Secretary* (to 13 November 2005)	145	–	7,500	153	208	205
Leigh Lewis *Permanent Secretary* (from 14 November 2005)	53	–	4,000	57	159	–
Phil Wynn Owen	106	–	–	106	106	32 (FYE 95)
David Anderson (to 13 May 2005)	55	–	–	55	214	211
Lesley Strathie (from 16 May 2005)	125	–	–	125	137	–
Alexis Cleveland	137	26	–	163	163	167
Stephen Geraghty	170	6	–	176	176	–
Terry Moran (from 16 December 2005)	40	–	–	40	106	–
Adam Sharples	124	–	–	124	124	57 (FYE 115)
John Codling	135	21	–	156	156	156
Kevin White	128	42	–	170	170	176
Joe Harley	225	24	–	249	249	151 (FYE 223)
Simon MacDowall	113	22	–	135	135	30 (FYE 131)
Paul Jenkins	123	–	–	123	123	26 (FYE 109)

*The taxable benefits in kind relate to the use of chauffeur-driven cars.

The information given above relates to the Permanent Secretary and members of the Departmental Executive team. Equivalent information relating to any Board Members of Supply-financed agencies consolidated into the Departmental Resource Account is given in the separate Agency accounts.

Salary

Salaries quoted relate solely to the period during the year when the individuals concerned served on the DWP Executive Team.

“Salary” includes gross salary and performance pay or bonuses. “Allowances” include reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; reimbursement of rented accommodation costs; and any other allowances to the extent that they are subject to UK taxation.

Pension Benefits

Ministers	Total accrued pension at age 65 as at 31/03/06	Real increase in pension at age 65	CETV at 31/03/06	CETV at 31/03/05	Real increase in CETV
	£000	£000	£000	£000	£000
Rt Hon Alan Johnson MP *Secretary of State* (to 6 May 2005)	0-5	0-2.5	47	45	1
Rt Hon David Blunkett MP *Secretary of State* (from 6 May 2005 to 2 November 2005)	10-15	0-2.5	150	132	10
Rt Hon John Hutton MP *Secretary of State* (from 3 November 2005)	5-10	0-2.5	65	60	3
Jane Kennedy MP *Minister of State* (to 9 May 2005)	5-10	0-2.5	52	49	1
Malcolm Wicks MP *Minister of State* (to 9 May 2005)	0-5	0-2.5	50	49	1
Mr Stephen Timms MP *Minister of State* (from 10 May 2005)	5-10	0-2.5	87	69	11
Rt Hon Margaret Hodge MP MBE *Minister of State* (from 10 May 2005)	5-10	0-2.5	81	66	7
Rt Hon Baroness Hollis of Heigham *Parliamentary under Secretary (Lords)* (to 9 May 2005)	10-15	0-2.5	156	153	2
Lord Hunt of King's Heath *Parliamentary under Secretary (Lords)* (from 10 May 2005)	5-10	0-2.5	106	81	16
Maria Eagle MP *Parliamentary under Secretary of State* (to 9 May 2005)	0-5	0-2.5	22	22	0
Mr Chris Pond MP *Parliamentary under Secretary of State* (to 6 May 2005)	0-5	0-2.5	14	13	0
Mr James Plaskitt MP *Parliamentary under Secretary of State* *(Commons)* (from 10 May 2005)	0-5	0-2.5	5	0	3
Mrs Anne McGuire MP *(Parliamentary under Secretary of State* *(Minister for Disabled People)* (from 10 May 2005)	0-5	0-2.5	55	46	5

Ministerial pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended). Those Ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an "average salary" basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution.)

As the House of Commons and House of Lords and not the Department meet the Exchequer contribution to the cost of pension provision for all Ministers, the pension details are included on a "for information" basis only.

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on, or after, age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the Minister (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Officials	Accrued pension at age 60 as at 31/03/06 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/03/06	CETV at 31/03/05	Real Increase in CETV
	£000	£000	£000	£000	£000
Sir Richard Mottram *Permanent Secretary* (to 13 November 2005)	85-90 plus 255-260 lump sum	0-2.5 plus 2.5-5 lump sum	2,149	1,998	4
Leigh Lewis *Permanent Secretary* (from 14 November 2005)	65-70 plus 205-210 lump sum	0-2.5 plus 2.5-5 lump sum	1,434	1,369	20
Phil Wynn Owen	30-35 plus 95-100 lump sum	2.5-5 plus 12.5-15 lump sum	522	338	68
David Anderson[1] (to 13 May 2005)	0-5	0-2.5 plus 0-2.5 lump sum	52	45	4
Lesley Strathie (from 16 May 2005)	50-55 plus 160-165 lump sum	12.5-15 plus 40-42.5 lump sum	975	567	244
Alexis Cleveland	45-50 plus 135-140 lump sum	0-2.5 plus 5-7.5 lump sum	874	658	44
Stephen Geraghty[1] (from 1 April 2005)	10-15	0-2.5 plus 0-2.5 lump sum	166	134	27
Terry Moran (from 16 December 2005)	30-35 plus 100-105 lump sum	0-2.5 plus 0-2.5 lump sum	519	501	9
Adam Sharples	40-45 plus 120-125 lump sum	2.5-5 plus 12.5-15 lump sum	808	573	72
John Codling	45-50 plus 140-145 lump sum	0-2.5 plus 5-7.5 lump sum	976	741	47
Kevin White	40-45 plus 130-135 lump sum	0-2.5 plus 5-7.5 lump sum	957	732	49
Joe Harley[1]	0-5	0-2.5 plus 0-2.5 lump sum	51	32	8
Simon MacDowall[1]	10-15	0-2.5 plus 0-2.5 lump sum	176	115	25
Paul Jenkins	40-45 plus 120-125 lump sum	0-2.5 plus 5.-7.5 lump sum	726	543	36

[1]Opted to join the Premium Scheme.

None of the above opted to open a Partnership Pension Account.

Civil Service Pensions (CSP)

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (Classic, Premium and Classic Plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of the Premium scheme or joining a good quality "money purchase" stakeholder arrangement with a significant employer contribution (Partnership Pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to 3 years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

The Partnership Pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Non-Executives

Fees amounting to £61,000 (2004-05 £82,000) were paid to Non-Executive Board members as follows:

	2005-06 Total Fees	2004-05
	£000	£000
Bridget Rosewell (to 22 July 2005)	8	25
Graham Stow (to 24 October 2005)	10	20
Michael Sommers	23	20
John Cross	20	17
Paul Gray	–	–

Leigh Lewis
Accounting Officer

2 November 2006

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, the Department is required to prepare Resource Accounts for each financial year, in conformity with a Treasury Direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

The Resource Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department, with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the *Financial Reporting Manual* prepared by HM Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Financial Reporting Manual*, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting.*

Statement on Internal Control

Scope of Responsibility

As Principal Accounting Officer, I am responsible for maintaining a sound system of internal control that supports the achievement of the Department for Work and Pensions' aims, objectives and policies, whilst safeguarding the public funds and Departmental Assets for which I am personally accountable, in accordance with the responsibilities assigned to me in Government Accounting.

I have delegated some Accounting Officer responsibilities to the Chief Executives of the Agencies and Non-Departmental Public Bodies, which fall within the Departmental boundary. Individual Chief Executives are accountable for the maintenance and operation of the system of internal control and risk management in their business areas, and for the production of an associated Statement on Internal Control.

The Department's Executive Team (ET), of which I am Chair, has collective responsibility for the leadership and strategic management of the Department including its Agencies in line with Ministers' objectives and the Department's Public Service Agreement (PSA) targets. The strategic management of the Department includes designing and securing a sound governance framework and system of internal control and ensuring compliance with them. We have during the year established six ET sub-committees to support effective Departmental strategic and corporate decision-making.

My accountabilities and those of senior directors within the Department are formally recorded in the Departmental Framework, which was reviewed during the course of 2004-05. The revised Departmental Framework was published in December 2005 and is accessible through the Department's Internet site. The Department established a new Corporate Leadership and Governance Division, with reporting lines to the Departmental Solicitor in September 2005, which has an overarching role to ensure that there are effective governance arrangements in the Department. To further strengthen the overall control regime within the Department I have introduced regular performance Accountability Reviews with each member of ET.

The *Departmental Delivery Plan 2005-08* sets out our high-level plans for achieving our PSA targets and securing the efficiencies which were agreed as part of the 2004 Spending Review (SR2004) and captures our strategic risks, financial allocations and underpinning planning assumptions. The *Departmental Business Plan 2006-07* sets out the progress that was made in 2005-06 and the significant challenges that we aim to meet in 2006-07.

The Department has produced a five-year strategy to identify long-term objectives, and articulate a high level approach to their achievement. The strategy was published in February 2005 and formed the basis of our delivery plans. The strategy is now being refreshed and will form the basis of the planning for the Comprehensive Spending Review 07 period. I have also established a Strategy Group to take responsibility for developing a shared overview of crosscutting policy and strategy activity in the Department, and to monitor its development and delivery.

As Permanent Secretary, I also chair the Departmental Board (DB), which is responsible for scrutinising, challenging and providing advice on delivery strategies, plans, programmes, performance and governance arrangements. The Board is currently comprised of three members of the Executive Team and three Non-Executive members who offer independent and constructive challenge. During the course of the year two Non-Executives have left the Departmental Board, and a recruitment process has been initiated to ensure that there are at least four Non-Executive members of DB in line with its constitution.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve aims and objectives and the policies and delivery plans and programmes to achieve them. It can therefore provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental aims, objectives and policies, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for Work and Pensions for the year ended 31 March 2006 and up to the date of the approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

The risk and control framework

The Department's overarching governance arrangements, which are described in the Departmental Framework, are underpinned by supporting frameworks, instructions and guidance. This framework is kept under review to reflect organisational and other changes.

The Department's strategy for managing risk is outlined in its Risk Management Framework, which is currently being revised to reflect both internal and external best practice. A key feature of the revised framework is the commitment to adopt a standard approach across the Department to aid the sharing and communication of risk information.

We have made significant progress in aligning risk management with business planning and performance management. ET members are individually accountable for managing risks to the achievement of PSA targets and from strategic threats. The integration of risk management with planning and performance management will continue to be strengthened with the focus being upon substance rather than process.

The Department has in place established Standing Financial Instructions that specify the high level system of financial control. Underpinning financial frameworks are currently being reviewed and revised integrated financial delegations have been introduced. A revised Departmental Business Controls System is being rolled out and will be fully implemented by the end of 2006 and will provide improved management information to support compliance with mandatory controls.

The Department's business continuity management arrangements are set out in the Departmental Business Continuity Framework and are championed by an ET member. During the course of the year the Departmental Business Continuity Team have provided advice and guidance to business units and related projects, and have facilitated a number of rehearsals to ensure that Business Continuity Plans are robust.

The Department takes compliance with relevant data-protection legislation very seriously and takes action to address any weaknesses that come to light, to minimise the risk of unauthorised disclosure of any personal information it holds. The Department has in place a comprehensive set of Information System Security standards and an Information Security Committee with representatives from across the Department. The committee meets quarterly to set and approve policy and to oversee the major information-security issues facing the Department.

Capacity to handle risk

The Department remains committed to the aims of the Government's risk-improvement programme. The Executive Team has endorsed a revised Risk Management Policy and set of Principles and Standards that incorporate both internal and external best practice. During the course of 2006 these will be implemented across the Department to further improve our communication, understanding, sharing, reporting, mitigation and escalation of risks. A range of practical guidance, e-learning and formal risk management training courses have been available to staff throughout the year to help them acquire the skills and knowledge they need to manage risks appropriate to their role.

Each quarter, ET formally reviews the Department's performance, strategic risks and associated mitigation plans which are recorded in the strategic risk register. Management of performance and strategic risk is also subject to independent review and challenge by the Departmental Board. ET continues to consider the challenge of achieving PSA targets and other agreed performance levels, while delivering required efficiencies, set out in the Comprehensive Spending Review 2004 settlement to be a significant strategic risk to the Department. The ET Planning Performance and Risk Sub-Committee (PPRC) was established in September 2005 with board level representation from businesses across the Department. The PPRC meets monthly and is chaired by the Finance Director General. The committee specifically supports me in identifying and managing cross-cutting risks. Prior to establishment of the PPRC the Strategic Risk Review Board supported me in these matters.

The continuing modernisation of our key delivery services while maintaining the volume and standard of service to our customers is recognised by ourselves, OGC, HMT and NAO to be a considerable challenge. Each of the Senior Responsible Officers and I individually and collectively through the ET and its sub-committees keep this issue under very careful review. We work to ensure that any slippage in delivery plans by timing or benefits is covered operationally by business continuity arrangements and that efficiency targets are achieved by realising compensating savings from the business in question or elsewhere in the Department. We continue to work with our main suppliers to ensure value for money in delivery in line with market benchmarks.

Review of Effectiveness

As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The Departmental Board and Departmental Audit Committee have independently advised me on the findings of these sources of assurance and I have initiated activities to address weaknesses and ensure continuous improvement of the system where necessary.

Formal benchmarking of the level of risk-management capability across the Department has again been assessed this year using the HM Treasury Risk Assessment Framework, providing evidence that continued improvement has been made, and that risk management is now embedded in core business processes for all key areas. Risk Assurance Division validated the findings of each assessment, and senior managers in each business area have plans to further improve their risk management capability to enable us to drive and monitor future progress in line with HM Treasury expectations.

The Department's Internal Audit function operates in full compliance with the Government Internal Audit Standards. The Department has, where appropriate, responded to recommendations made by the National Audit Office, the Public Accounts Committee, the Office of Government Commerce and the Department's own Standards Committees.

The internal audit work programme for 2005-06 reflected extensive discussions with my senior managers, focusing on what they and the internal audit function of Risk Assurance Division saw as the areas of greatest risk to the achievement of our business objectives. The work programme was approved by the Departmental Audit Committee, and was kept under review by all parties throughout the year to ensure that it reflected changing business risks and priorities. I am pleased that the balance of Audit assurance is gradually becoming more positive.

In his Annual Assurance Report, the Risk Assurance Director recognised the progress made in establishing sound Governance and Risk processes. However, he considered that these process improvements had not yet fed through in all cases into better results. Consequently he has provided me with an overall limited assurance over the risk, governance and control mechanisms within the Department.

Assurance that the Department is managing its security risks to our people, IT systems, information and buildings, is provided by the Departmental Security Officer. He evaluates the threats to the Department and produces an assessment of the extent to which the threats are being managed by the DWP businesses. He reports to ET on a quarterly basis and to the Departmental Audit Committee every six months. Although some improvements have been made in 2005-06 he has, in conjunction with the Risk Assurance Director, assessed the level of assurance around our security regimes as limited.

The Chief Executives and senior managers within the Department have each provided me with a Letter of Assurance, setting out their opinions on how effectively the risks associated with the discharge of their accountabilities have been managed and, where appropriate, highlighting any significant internal-control problems.

As a result of my review of effectiveness a number of significant control weaknesses have been identified, which are set out in the following paragraphs. A number of these are long-standing weaknesses, which have been declared in previous statements.

Significant internal control problems

Estimated losses from fraud and error in the benefit system continue to be a problem for the Department and I estimate that they amounted to about 2.3% of benefit spend (approximately £2.7 billion) in 2005-06. About a third of these losses are directly attributable to errors arising within the Department's or Local Authorities' own benefit processes, with a further third attributable to customer error, and the remainder due to fraud. In January 2006, I put in place a task force with the specific aim of reducing official error across the main areas of loss – Income Support (IS), Jobseekers Allowance (JSA), Housing Benefit and Pension Credit. A new Departmental strategy for tackling error over the longer term is in development and is due to be published in Autumn 2006. The Department also has ambitious PSA targets for the reduction of fraud and error. Latest published estimates suggest that we are on course to achieve the SR02 target for IS and JSA. It is less certain that we will meet the targets for Pension Credit and Housing Benefit.

There continues to be concern about uncertainties in the Department's debtor balances and in the procedures associated with potential programme expenditure overpayments. The Debt Programme is delivering improvements through key initiatives including data cleansing and implementation of the Debt Manager IT System. Work is underway to improve understanding of the root causes of "hidden debt" and to generate sustainable improvement in overpayment identification, referral and management of backlogs.

As part of their annual review of the Department's Resource Accounts, NAO have engaged in an extensive review of Debt Accounting activity, including an evaluation of the new Debt Manager IT System. Despite concerns in relation to backlogs caused by upheaval during IT implementation in August/September 2005, and the impact on "completeness", NAO have acknowledged progress in improving the accuracy of debtor balances recorded on the new system and also improvements to the effectiveness of debt collection activities.

During 2005-06 we commenced roll out of the Resource Management system (RM) and this will continue throughout 2006-07. RM is a DWP wide system which provides the opportunity to deliver our business more efficiently and to improve the effectiveness of the framework of financial control across the Department. The project is now mid-way through its delivery phase and a number of issues have emerged during the roll out. Inadequacies in the approach to organisation and structures within DWP businesses and lack of understanding of job roles and procurement processes have in turn led to issues primarily relating to non-compliance and difficulties in coping with high volumes of change and work arounds. My Finance Directorate has been working closely with our businesses to develop a plan which has involved the rephrasing of subsequent roll outs to address these issues and to ensure that cross-Departmental risks are effectively managed.

Security and the safe custody of the personal data we hold about our customers and employees continue to be significant issues for the Department. Whilst a recent independent review of the Department's IS/IT security found that the Department performs on a par with other Government Departments, further work is required in some areas to reach the level of maturity achieved by comparable major financial institutions. Significant senior management commitment is being provided to support increased awareness of security standards to minimise the risk of the unauthorised disclosure of information, for example through bogus telephone enquiries or the misuse of IS/IT systems.

In November 2005, I became aware of the theft of a significant amount of staff personal information, which was used to perpetrate Tax Credit fraud through the E-Portal provided by HM Revenue and Customs (HMRC). The fraud has been the subject of an ongoing criminal investigation. An action team comprising senior managers from the Department and HMRC was formed to coordinate our immediate response to the incident, which included early identification and resolution of the issues, provision of ministerial and media briefing and, most importantly, activities in support of the staff affected. An investigation identified the existence of security weaknesses which could have given rise to this event. In response to recommendations made by my internal auditors, a number of immediate actions were put in place to review and remind staff about the requirements for data security, and I have initiated a project to implement their recommendations in full.

Jobcentre Plus have made good progress this year in establishing improved accounting systems and processes to manage Employment Programme expenditure. However, work is continuing to secure compliance with these arrangements and strengthen control of European Social Fund and Employment Zone expenditure, where areas of weakness remain.

In April 2005 Ministers initiated a thorough review of the Child Support Agency's operations. They have been fully involved in reviewing the recommendations for a recovery plan for the agency which addresses the scale and depth of the challenges it faces. An Operational Improvement Plan has been announced and additional resources provided to take this forward. During the course of the year a review of Child Support Reforms by National Audit Office found that, while there were some early signs of performance improvement, there continue to be problems both with CSA's operations and the CS2 computer system. Additionally the agency has identified seven significant internal control weaknesses which are reported on in detail in the CSA Statement on Internal Control. In February 2006 Sir David Henshaw was asked by the Secretary of State to redesign the system of child support and to report back to him by the summer recess. In response to the recommendations made by Sir David, the Secretary of State has announced that the existing Child Support Agency will be replaced, and a new organisation created to administer new, simplified child support arrangements for new clients alongside a residual body to handle the current client caseload and debt.

Whilst non-compliance with a range of operational instructions, controls and checks remain an issue for the Department we have begun to see some significant improvements resulting from concerted management action. Securing further improvements in compliance will continue to be a priority in 2006-07.

Leigh Lewis
Accounting Officer

2 November 2006

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Department for Work and Pensions for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on page 29 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report, the unaudited part of the Remuneration Report, and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

However, the scope of my audit was limited because the Department were unable to provide sufficient assurance that the £1,417 million of the balance sheet debt relating to gross customer overpayments are accurately stated. There were no other satisfactory procedures that I could adopt to confirm that the amounts for customer overpayments were accurately stated.

Qualified opinion due to limitation of scope and irregular expenditure

As disclosed in Note 44 of the Accounts, Schedule 2 expenditure includes benefit payments calculated erroneously and benefit payments arising from fraudulent claims. Under Social Security legislation, the Department must calculate benefits due in accordance with the regulations; it has no authority to vary benefit awards. Fraudulent transactions cannot, by definition, be regular since they are without proper authority. Accordingly, I have concluded that expenditure arising from erroneous benefit awards and fraudulent benefit claims has not been applied to the purposes intended by Parliament and is not in conformity with the authorities which govern it.

In my opinion:

- except for any adjustments that might have been found to be necessary had I been able to obtain sufficient evidence concerning the completeness, existence and valuation of customer overpayment debt, the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and,
- except for the expenditure relating to erroneous benefit awards and arising from fraudulent benefit claims, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In respect alone of the limitations on my work relating to customer overpayment debt:

- I have not obtained all the information and explanations that I considered necessary for the purpose of my audit; and,
- I was unable to determine whether proper accounting records had been maintained.

Details of these matters are set out in my report on pages 36 to 40.

John Bourn
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

3 November 2006

Report by the Comptroller and Auditor General

Introduction

1. In its consolidated resource accounts, the Department for Work and Pensions accounts for expenditure of £124.2 billion on a wide range of benefits, employment programmes and the associated administration costs, together with its assets and liabilities at the year-end.

2. In 2004-05, I began the rollout of an enhanced financial audit strategy for the audit of the Department's financial statements which I have continued to progress during my audit of the 2005-06 accounts. My main motivation in doing this was to assist the Department in addressing some of the long standing problems which have led to repeated qualification of the accounts. I am also seeking to improve the reporting of the issues and thereby bring about greater transparency of the barriers to long term improvement that the Department faces.

3. In this report I provide an update on the four qualifying issues I reported last year and explain the reasons for the residual qualifications that I am obliged to report this year. Under each issue I report progress made and the implications for this year's accounts, together with details of initiatives underway to bring about long term improvement.

4. This is the 17th successive year in which I have qualified the Department's accounts. I am pleased to report, however, that this year has seen real progress towards removing or tackling the qualifications which have been made to the Department's accounts in previous years. Two of the four qualifications which I reported last year have not been repeated as a result of improved focus and effort by the Department. I also particularly welcome the establishment of the Official Error Taskforce, established by the Permanent Secretary, to help drive down levels of fraud and error in the Department's payment of benefits. Overall, I have seen and greatly welcome a sense of real determination within the Department – led from the top – to tackle and seek to resolve the causes of the longstanding qualifications on the Department's accounts.

Audit Opinion

5. In 2004-05 I qualified my opinion on four specific issues. In 2005-06 this is reduced to two:

(i) Substantial levels of estimated losses from fraud and error in benefit expenditure recorded in the operating cost statement. I provide full details in paragraphs 7 to 19.

(ii) Material uncertainties over contributory and non-contributory benefit customer overpayment debtors. Details are discussed in paragraphs 20 to 28.

6. These two are the more long standing and consequently the more difficult to address. The other two of previously reported qualifications:

(iii) a significant limitation in the evidence made available to the National Audit Office during the audit of other Social Fund debtors. Details provided in paragraphs 29 to 33.

(iv) an excess vote within Request for Resource 2 – Working Age. Details provided in paragraphs 34 to 36

have not been repeated.

Substantial levels of estimated losses from fraud and error in benefit expenditure

7. The National Audit Office, based on information provided by the Department and its own independent testing, has concluded that an estimated £2.7 billion may have been lost from benefit payments because of fraud and error in 2005-06. This amount represents some 2.2% of the £124.2 billion of expenditure in the accounts and is in my view a material sum.

The estimation methodology

8. The estimate of £2.7 billion is disclosed by the Department in Note 44 of the accounts entitled Payment Accuracy. The details in this note are supported by extensive work undertaken by the Department to continuously measure fraud and error activity in the benefits system. This work is based on a range of exercises:

- Continuously Measured Benefits (for example, Income Support, Jobseeker's Allowance, State Pension Credit and Housing Benefit) which are subject to a continuous rolling programme of checking, validation and fraud and error evaluation;

- National Benefit Reviews which periodically consider individual benefits and provide a snapshot assessment of fraud and error not otherwise measured. The latest review relating to State Pension was undertaken in 2006 – with previous reviews undertaken for Disability Living Allowance (2005), Incapacity Benefit (2001) and Carers Allowance (1996);
- Annual estimates for Official Error in Incapacity Benefit and State Pension and Instrument of Payment fraud; and
- Annual statistical assessments of fraud and error of otherwise un-reviewed benefits based largely on historic data and covering benefits with lower levels expenditure and lower risks of fraud and error occurrence.

These measurement exercises produce estimates of overpayments and underpayments although the total estimate of £2.7 billion in the Payment Accuracy note relates only to overpayments.

9. In my report "*International benchmark of fraud and error in social security systems HC1387 2005-06*" I noted that the Department is at the forefront of fraud and error measurement, and compares well with other countries in terms of focus and initiatives to combat the problem. The current estimate of fraud and error disclosed in the accounts is the best measure currently available.

10. In undertaking the audit of the accounts the National Audit Office consider the work of the Department in producing the estimate of fraud and error, including a review of the Department's methodology, checking procedures and underlying sample work. The National Audit Office also undertake their own work to independently validate the conclusions reported by the Department.

11. In 2004-05 I acknowledged the significant improvement the Department had made both in the accuracy of the fraud and error estimate and the improved disclosure in the Payment Accuracy note, which for the first time in 2004-05 broke down the estimate by benefit types. In 2005-06 the Department have built on this initiative by retaining the enhanced disclosure, but also now disclosing the period of the exercise upon which each estimate is based and thereby providing greater transparency of the estimates currency at the time of reporting.

12. The process used to derive the estimate is labour intensive, which at a time when the Department is seeking to make significant efficiency savings must demonstrate its value. As a consequence the Department is currently reviewing its fraud and error measurement requirements generally. The review is seeking to determine the optimum use of resources to support the process, while maximising the allocation of those resources to the front line activity of tackling fraud and error. As part of this consideration thought is also being given to the rationalisation of fraud and error reporting with other reporting targets and closer alignment of fraud and error estimation with the period of account. The intention is to provide a more coherent picture of fraud and error across the benefit system. I welcome these initiatives and will report further on their development in subsequent reports.

The Department's Strategy to reduce Fraud and Error

13. The Department has placed significant emphasis on tackling fraud in recent years. Since the current payment accuracy disclosure was first used the Department estimates reductions in fraud of around £0.2 billion in relation to Income Support, Jobseekers Allowance and Housing Benefit. Key initiatives supporting the Department's approach to fraud prevention continue. These include a targeting fraud campaign, legislative reform to support fraud investigations and data matching client details between accessible systems to spot inconsistency and therefore potentially fraudulent claims. I will monitor progress in these areas and report developments in subsequent reports.

14. In the current year, enhanced focus has been put on Official Error. Official Error arises when the Department incorrectly processes a new claim to benefit or takes incorrect action when processing a change of circumstance notified by a customer. As this is an area widely acknowledged as wholly under Departmental control, an Official Error Task Force has been established to support a demonstrable and measurable reduction in benefit complexity and, by implication, official error rates. Focused initiatives are now directed to the "top ten" official errors, by monetary value, in Income Support, Jobseekers Allowance, State Pension Credit and Disability Living Allowance, which I understand account for an estimated 60% of the total monetary loss across these benefits. Initiatives include:

- actions to reduce the stock of error, for example, through data cleansing;
- enhanced IT solutions;
- raising the profile of accountability within benefit processing agencies;
- an improved management checking regime;

- desk Aids and Refresher Training to support staff; and,
- focused solutions for specifically identified problem areas.

15. These initiatives are welcome, but set against a background of significant ongoing reform their effectiveness may prove difficult to quantify as like with like comparatives may not continue to exist. Again I anticipate reporting further on such developments in subsequent reports.

16. The Department also continues to focus on customer error. This arises when customers unintentionally provide incorrect information when making a claim to benefit, or fail to provide timely information on changes in their circumstances which can affect the level of benefit paid. Consistent with previous Departmental initiatives, emphasis is being placed on preventing new error, reminding customers of their responsibilities and identifying and correcting error already in the benefits system.

17. Key initiatives in tackling customer error focus on the causes of complexity that lead to such error and data cleansing old client information. There are also planned media campaigns that will highlight error, as well as fraud, and thereby encouraging honest customers to assist in getting and keeping their benefits correct.

Conclusion

18. The £2.7 billion estimate of fraud and error represents some 2.2% of the £124.2 billion of expenditure. In percentage terms this represents a continuation of a slow downward trend in the overall volume of fraud and error. It is however still a material sum, which in my view cannot by its very nature have been spent as Parliament intended. I have therefore qualified my audit opinion on the account.

19. I have now qualified the Department's account and those of its predecessors for the past 17 years because of the scale of fraud and error in benefit expenditure. In 2005-06 the Department has demonstrated a clear determination to resolve this long standing position introducing numerous initiatives and actively engaging with stakeholders to identify possible solutions. My staff will continue to monitor developments in these areas including following up on my report on *"Tackling Benefit Fraud HC392 2002-03"*.

Material uncertainty over Contributory and Non Contributory Benefit Customer Overpayment Debtors

20. Overpayments to customers arise from fraud and error by customers and from errors by officials. These are identified by staff in local offices and referred to Debt Centres for confirmation of the existence of a debt and its valuation and recovery. Once confirmed, the debts are included in the debt balances recorded in the Department's balance sheet.

21. In previous years, I have limited the scope of my audit opinion because the Department has been unable to provide me with all relevant evidence to demonstrate that the customer overpayment debt balance recorded within the Resource Account balance sheet is complete, accurately valued and consistently proven to exist. This position has not changed in 2005-06 in terms of my formal opinion, although significant progress has been made against each of the problems resulting in the limitation of scope.

Completeness

22. Customer overpayment debt arises when the benefit paid to the customer exceeds the amount they are entitled to. Each of the Department's Executive Agencies is responsible for identifying possible overpayments in the benefits they administer and for referring them to Debt Management for action.

23. My work in this area for 2005-06 was carried out jointly with Internal Audit and focused on the timeliness with which debts are referred to Debt Management by Jobcentre Plus. The work concluded that over 4 million income support and jobseekers allowance potential overpayments had still to be referred to Debt Management. The Department is unable to estimate the value of these cases due to the limitations of the underlying heritage benefit systems, although a drive within the Department's business units demonstrates that such amounts are still being pursued. Consequently I conclude that the scope of my audit has been limited and have qualified my opinion on the completeness of debt.

24. In order to strengthen the control environment, the Department has told me that from 2007-08, the Chief Executives of each Agency will be responsible for ensuring the timely referral of potential overpayment cases to Debt Management according to pre determined referral targets which will be monitored and assessed.

Valuation

25. In 2005-06, the Department introduced a new customer overpayment debt management and accounting system known as Debt Manager. As part of the introduction of this system the Department validated the valuation of opening balances transferred from the existing debt systems. Based on the National Audit Office's review I am satisfied that the opening balances in Debt Manager were accurately migrated from heritage systems and that subsequent recoveries arising in 2005-06 were appropriate.

26. However, the scale and extent of the data migration necessary to implement Debt Manager limited the Department's ability to carry out normal day to day business. As a result, a backlog of cases built up still requiring input into the Debt Manager system. As at 31 March 2006, the Department estimated there were 430,000 debt referrals which required input to Debt Manager, although the Department informs me that this had been reduced to 168,000 cases as at 30 September 2006. The backlog at 31 March 2006 creates a material omission from the customer overpayment debt balance and I have therefore qualified my opinion in this respect.

Existence

27. The number of recorded debts total around 3 million individual items with a significant portion being over 10 years old. Under normal circumstances customer overpayments are rigorously pursued and never written off. All cases are retained on file in case the customer claims benefits again and the debt can be recovered against those payments. Even where this is not the case, most people on attaining the age of 65 will receive a state pension and as a last resort any debts will be recovered against this. While the new Debt Manager system provides an adequate audit trail to new and recent debts previous experience with remote storage retrieval suggests the Department may have difficulty in retrieving system records and paper based documents over periods longer than two years. This would be likely to make it more costly to produce the evidence to support the existence of individual overpayment debt balances if challenged.

28. Once potential debts referred to Debt Management are confirmed a debt notification letter is sent to the customer. As noted in the debt accounting policy on page 49 the Department regards these letters as evidence of the existence of a debt. The letters are also accepted by courts as evidence of existence where enforcement action is taken. It has not yet been possible for me to review the controls around the production, storage and amendment of notification letters in 2005-06 and I have continued to limit the scope of my audit opinion in respect of the existence of customer overpayment debts. As part of my 2006-07 audit, I will review with the Department the extent to which debt notification letters can provide assurance as to the existence of older debts.

Evidence available to support Social Fund debtors

29. The Department administers Social Fund awards and repayments through its network of Jobcentre Plus offices. These are accounted for separately in the Social Fund White Paper Account and are also included in the Department's Resource Account on consolidation.

30. In 2005-06 there were significant improvements in the effectiveness of the Department's document retrieval arrangements. These improvements have allowed me to reduce the extent of my qualification on the 2004-05 Social Fund White Paper accounts, in respect of Budgeting Loans, that arose because the scope of my audit was limited by missing case-papers.

31. Difficulties have remained in finding documentary evidence to support awards of Crisis Loans in the year (£84 million). Accordingly, I have qualified my opinion on the White Paper Account on the basis of limitation of scope on Crisis Loans awards in the year.

32. My review of Crisis Loan awards noted an irregular payment where misrepresentation by the customer was suspected. The Department's procedures for estimating the value of losses from fraud and error in benefit expenditure do not cover payments from the Social Fund, which have been regarded as low risk. This meant that the Department was unable to confirm that the full extent of irregularities on Crisis Loans was at a tolerable level. Checks on a further 53 Crisis Loan awards with similar features to the initial irregular case, identified further irregularities which the Department are continuing to investigate. I will review the outcome of these investigations as part of my 2006-07 audit of the Social Fund White Paper Account. As a result of the irregularities identified I am unable to form an opinion on the accuracy and regularity of Crisis Loan payments in 2005-06 and I have scope limited my opinion in this respect on the White Paper Account (*Social Fund White Paper Account HC1701 2005-06)*.

33. Crisis Loans awards when consolidated into the Department's Resource Accounts do generate debtor balances. However, I do not consider these to be of sufficient significance as to generate an equivalent qualification in the Resource Account, particularly when placed in the context of the benefit overpayment debt balances which are already subject to a limitation of scope qualification. Therefore I have not qualified the Resource Account in 2005-06 in respect of balances generated from the Social Fund.

The Department has complied with Parliamentary limits on expenditure

34. In 2004-05, the Department expended more resources in respect of one "Request for Resource" than Parliament had authorised. By doing so, the Department breached Parliament's control of expenditure and incurred what is termed an "excess" for which further parliamentary authority was subsequently required. I qualified my opinion on the Department's 2004-05 Resource Accounts in this regard.

35. The Excess Vote in 2004-05 was primarily due to a shortfall in receipts by the Child Support Agency in respect of recoveries of benefits from non-resident parents; and an overspend on expenditure on Housing Benefits, principally due to an increase of subsidy costs in respect of benefit paid by local authorities to those classified as temporarily homeless.

36. As the primary factors contributing to the Excess Vote in 2004-05 were considered demand-led, and in the case of Housing Benefits subject to local authority policy, the Department did not consider there to be significant weaknesses in its own internal controls which contributed to the Excess Vote arising. Indeed, a non-repetition of the significant demand-led expenditure variances experienced in 2004-05, combined with an increased focus by the Department on its forecasting controls, has resulted in the Department comfortably avoiding an Excess Vote arising in its 2005-06 accounts.

John Bourn
Comptroller and Auditor General
3 November 2006

National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

		Estimate			Outturn				Restated 2004-05 Outturn
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	2005-06 Net Total Outturn compared with Estimate saving/ (excess)	Net Total
Request for Resources	**Note**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
1: Children	2	410,410	(198)	**410,212**	397,880	(171)	**397,709**	12,503	**359,719**
2: Working Age	2	37,535,381	(1,993,525)	**35,541,856**	37,019,585	(1,907,337)	**35,112,248**	429,608	**35,170,597**
3: Pensioners	2	11,285,332	(499,607)	**10,785,725**	11,171,114	(497,809)	**10,673,305**	112,420	**9,991,258**
4: Disabled	2	14,216,135	(4,170)	**14,211,965**	14,161,824	(1,452)	**14,160,372**	51,593	**13,253,223**
5: Corporate Services	2	2,227,988	(85,266)	**2,142,722**	2,164,358	(82,496)	**2,081,862**	60,860	**1,678,316**
Total Resources		**65,675,246**	**(2,582,766)**	**63,092,480**	**64,914,761**	**(2,489,265)**	**62,425,496**	**666,984**	**60,453,113**
Non-Operating Cost A in A		**–**	**(10,391)**	**(10,391)**	**–**	**(8,700)**	**(8,700)**	**(1,691)**	**(7,518)**

Net Cash Requirement 2005-06

				2005-06	2004-05
		Estimate	Outturn	Net Total Outturn compared with Estimate: saving/ (excess)	Outturn
	Note	**£000**	**£000**	**£000**	**£000**
Net Cash Requirement	4	**64,134,653**	**63,384,054**	**750,599**	**58,513,646**

Summary of income payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics):

		Forecast 2005-06		Outturn 2005-06	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	*£000*	£000	£000
Total	5	**7,222**	***7,202***	**129,872**	***82,896***

Explanations of variances between Estimate and Outturn are given in the Management Commentary.

The notes on pages 48 to 97 form part of these accounts.

The Statement of Parliamentary Supply is not directly comparable to the Operating Cost Statement and the Statement of Operating Costs by Departmental Aim and Objectives due to the fact that:

- The Statement of Parliamentary Supply only includes Supply expenditure and the Operating Cost Statement comprises both Supply and non-Supply expenditure.
- Financing received from the National Insurance Fund in respect of administration costs for the delivery of contributory benefits is treated as A-in-A within the Estimate and the Statement of Parliamentary Supply but as financing via the General Fund within the Resource Accounts.
- Total Social Fund expenditure is consolidated within the Operating Cost Statement whereas the cash grant element only is included in the Statement of Parliamentary Supply.
- The administration cost expenditure within each RfR in the Operating Cost Statement reflects the full cost of those RfRs, whereas in the Statement of Parliamentary Supply each RfR reflects the direct costs borne by that RfR.
- The request for resources are not directly comparable to objectives. Administration expenditure in the Consolidated Statement of Operating Costs by Departmental Aim and Objective has been assigned to objectives based on RfRs. Expenditure against RfR5 has been apportioned to Objectives 1-4 based on the Administration expenditure incurred on that objective. Expenditure on Objective 5 is based on the work undertaken to support PSA targets 9 and 10, which underpin this objective. Programme expenditure in the Consolidated Statement of Operating Costs by Departmental Aim and Objective has been assigned to Objectives in line with the Departmental Report.

Request for Resources:

Request for Resources 1:	Ensuring the best start for all children, ending child poverty in 20 years.
Request for Resources 2:	Promoting work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need.
Request for Resources 3:	Combating poverty and promoting security and independence in retirement for today's and tomorrow's pensioners.
Request for Resources 4:	Improving the rights and opportunities for disabled people in a fair and inclusive society.
Request for Resources 5:	Corporate contracts and support services.

The notes on pages 48 to 97 form part of these accounts.

Operating Cost Statement
for the year ended 31 March 2006

	Note	Staff Costs £000	Other Costs £000	Income £000	2005-06 Sub-total by RfR £000	Restated 2004-05 £000
Administration Costs RfR 1 (Children)						
Staff Costs	8	239,553				217,856
Other administration costs	9		225,840			210,279
Operating income	14			(171)		(199)
RfR 1 Sub-total					465,222	427,936
RfR 2 (Working Age)						
Staff Costs	8	2,111,181				1,979,525
Other administration costs	9		1,841,374			1,745,543
Operating income	14			(92,655)		(99,258)
RfR 2 Sub-total					3,859,900	3,625,810
RfR 3 (Pensioners)						
Staff Costs	8	379,479				393,671
Other administration costs	9		556,554			589,954
Operating income	14			(43,626)		(3,132)
RfR 3 Sub-total					892,407	980,493
RfR 4 (Disabled)						
Staff Costs	8	155,822				137,699
Other administration costs	9		151,121			102,082
Operating income	14			(587)		(686)
RfR 4 Sub-total					306,356	239,095
RfR 5 (Corporate Services)						
Staff Costs	8	332,993				361,191
Other administration costs	9		375,442			548,754
Operating income	14			(57,789)		(39,041)
RfR 5 Sub-total					650,646	870,904
Net Administration Costs					**6,174,531**	**6,144,238**
Programme Costs RfR 2 (Working Age)						
Programme costs	13		33,598,887			33,517,959
Income	14			(825,939)		(730,081)
RfR 2 Sub-total					32,772,948	32,787,878
RfR 3 (Pensioners)						
Programme costs	13		10,585,857			9,599,857
Income	14			–		–
RfR 3 Sub-total					10,585,857	9,599,857
RfR 4 (Disabled)						
Programme costs	13		13,960,992			13,086,722
Income	14			(864)		(600)
RfR 4 Sub-total					13,960,128	13,086,122
National Insurance Benefits and Non-Voted Expenditure						
Expenditure	13		59,657,789			57,044,202
Income	14			(2,965)		(1,897)
NIF Sub-total	16b				59,654,824	57,042,305
Net Programme Costs	13				**116,973,757**	**112,516,162**
Totals		3,219,028	120,953,856	(1,024,596)		
Net Operating Cost					**123,148,288**	**118,660,400**

All income and expenditure is derived from continuing operations.

Statement of Recognised Gains and Losses
for the year ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Net gain on revaluation of tangible fixed assets		1,560	6,916
Net gain/(loss) on revaluation of investments	23	909	(375)
Movement in Government Grant Reserve	31b	(17)	(17)
Pension fund actuarial gains/(losses)	29	719	(6,715)
Recognised gains and losses for the financial year		**3,171**	**(191)**

The notes on pages 48 to 97 form part of these accounts

Balance Sheet
as at 31 March 2006

	Note	31 March 2006 £000	31 March 2006 £000	Restated 31 March 2005 £000	Restated 31 March 2005 £000
Fixed Assets					
Tangible Assets	21	967,186		741,153	
Intangible Assets	22	39,733		25,788	
Investments	23	1,123		214	
			1,008,042		767,155
Debtors falling due after more than one year	25		1,194,668		998,535
Current Assets					
Stocks and Work in progress	24	1,249		1,620	
Debtors	25	2,662,757		2,558,898	
Cash with paying agents		536		–	
Cash at bank and in hand	26	113,931		668,933	
		2,778,473		3,229,451	
Current Liabilities					
Creditors (amounts falling due within one year)	27	(3,423,942)		(4,603,339)	
Net Current Liabilities			**(645,469)**		**(1,373,888)**
Total Assets less Current Liabilities			**1,557,241**		**391,802**
Creditors (Amounts falling due within one year)	27	(349,030)		(340,120)	
Pensions Liability	29	(8,894)		(11,040)	
Provisions for Liabilities and Charges	28	(389,914)		(326,416)	
			(747,838)		(677,576)
			809,403		**(285,774)**
Taxpayers' Equity					
General fund	30		799,200		(295,312)
Revaluation reserve	31a		10,183		9,501
Government Grant Reserve	31b		20		37
			809,403		**(285,774)**

Leigh Lewis
Accounting Officer

2 November 2006

The notes on pages 48 to 97 form part of these accounts

Consolidated Cash Flow Statement
for the year ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Net cash outflow from operating activities	32a	(124,027,198)	(117,310,942)
Capital expenditure and financial investment	32b	(297,501)	(242,459)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		129,866	45,629
Payments of amounts due to the Consolidated Fund		(26,074)	(93,293)
Net financing from the Consolidated Fund	32d	62,725,255	59,060,551
Financing from the National Insurance Fund	32d	60,940,586	59,039,460
Other		64	358
Increase/(Decrease) in cash in the period	26	**(555,002)**	**499,304**

The notes on pages 48 to 97 form part of these accounts

Consolidated Statement of Operating Costs by Departmental Aim and Objectives for the year ended 31 March 2006

Aim: The Department's aim is to promote opportunity and independence for all.

2005-06	Gross	Programme Income	Net	Administration Net	Total Net
	£000	£000	£000	£000	£000
Objective 1 To ensure the best start for all children and end child poverty by 2020.	2,637,073	(27,970)	2,609,103	515,877	3,124,980
Objective 2 To promote work as the best form of welfare for people of working age, while protecting the position of those in greatest need.	30,947,798	(270,987)	30,676,811	4,292,139	34,968,950
Objective 3 To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners.	68,938,421	–	68,938,421	972,649	69,911,070
Objective 4 To improve rights and opportunities for disabled people in a fair and inclusive society.	14,750,286	(864)	14,749,422	368,258	15,117,680
Objective 5 To ensure customers receive a high quality service, including high levels of accuracy.	–	–	–	25,608	25,608
Net Operating Costs	**117,273,578**	**(299,821)**	**116,973,757**	**6,174,531**	**123,148,288**

The above figures are exclusive of any European Social Fund income and expenditure, as these are outside of the Department's control and, therefore, do not contribute to the overall Objectives.

Restated 2004-05	Gross	Programme Income	Net	Administration Net	Total Net
	£000	£000	£000	£000	£000
Objective 1 To ensure the best start for all children and end child poverty by 2020.	3,670,102	(42,052)	3,628,050	357,965	3,986,015
Objective 2 To promote work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need.	28,865,543	(145,789)	28,719,754	3,873,444	32,593,198
Objective 3 To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners.	66,289,682	(34)	66,289,648	1,033,016	67,322,664
Objective 4 To improve rights and opportunities for disabled people in a fair and inclusive society.	13,879,310	(600)	13,878,710	292,255	14,170,965
Objective 5 To modernise welfare delivery so as to improve the accessibility, accuracy and value for money of services to customers, including employers.	–	–	–	587,558	587,558
Net Operating Costs	**112,704,637**	**(188,475)**	**112,516,162**	**6,144,238**	**118,660,400**

Following the Spending Review 2004, the Department's objectives changed with effect from 1 April 2005. It has not been possible to restate 2004-05 expenditure in line with 2005-06 Objectives.

See Note 33 for further information on this statement.

The notes on pages 48 to 97 form part of these accounts

Notes to the Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2005-06 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the Public Sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn compared to Estimate in terms of the net resource requirement and the net cash requirement. The Consolidated Statement of Operating Costs by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure across the objectives agreed with Ministers.

In accordance with the *FReM*, the department has not prepared separate accounting statements for the core and consolidated elements of the Department as the results of each do not give a significantly different view.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets and stocks where material, at their value to the business, by reference to their current cost.

1.2 Basis of Consolidation

These accounts comprise a consolidation of the non-agency parts of the Department (core department), its Supply-financed Executive Agencies, certain Independent Statutory Bodies and the Health and Safety Commission and Executive (HSC/E). It also includes payment to the following bodies: Better Government for Older People, Motability, Independent Living Fund (ILF), the Pensions Regulator (TPR), the Disability Rights Commission (DRC), the Pension Advisory Service (PAS) and the Pension Protection Fund (PPF). Income and expenditure in relation to the Department's activities as an agent for the European Social Fund are also included within the consolidation.

A list of entities within the Departmental boundary is given at Note 45. Transactions between these entities are eliminated on consolidation.

Each Executive Agency and HSC/E produces its own annual report and accounts. Similarly, separate accounts are also produced for the Social Fund, National Insurance Fund, TPR, DRC and PPF. A separate Client Fund account is prepared and published alongside the Child Support Agency's Annual Report and Accounts.

Social Fund expenditure is consolidated within the Accounts and the cash grant to the Social Fund is included in the Summary of Resource Outturn.

Contribution receipts of the National Insurance Fund are excluded from the consolidation. However, certain elements of the National Insurance Fund are included. These are contributory benefits funded from the National Insurance Fund and costs to the Department of administering the Fund, together with amounts repaid by the Department to the Fund in respect of Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP) payments deducted by employers from National Insurance Contributions. The contributory benefits are excluded from the Summary of Resource Outturn. Recoveries from the NIF in respect of administration costs are disclosed as Appropriations in Aid (A in A) within the Summary. Both these recoveries and those in respect of Contributory Benefits are shown as financing in the General Fund. Any difference between contributory benefits paid and funding received from the NIF is recognised within various balances on the Balance Sheet which are summarised in Note 27e.

The Child Support Agency is responsible for recovering outstanding maintenance from non-resident parents. This includes amounts which, once recovered, will be repaid to the Secretary of State in respect of parents with care who are on benefits. The Departmental Resource Account excludes these amounts as they are legally due to the parent with care until the money is collected.

Where maintenance is collected in respect of parents with care who are receiving gross amounts of Income Support, the receipts are accounted for as A-in-A within the DWP Resource Account. The income is recognised when the Client Fund account makes the payment to the Department.

The consolidation boundary ensures that all items which fall within total social security expenditure are reflected in the Operating Cost Statement, whereas the Summary of Resource Outturn reflects only those items which fall within the Supply Procedure.

1.3 Benefit Overpayment Debt

Benefit debts arise when an overpayment occurs. Benefit debt recognised in the balance sheet is valued at the difference between the amount paid to the customer by the Department and the actual benefit entitlement. The value is communicated to the customer by an overpayment decision letter. The Department regards this letter as sufficient and appropriate evidence to support the initial or original valuation and existence of a debt. Customers have the right of appeal against the overpayment decision.

A significant proportion of debt remains on file for many years. The Department cannot therefore maintain a comprehensive evidential set of documents for every transaction in the life of a debt. However, periodic reconciliations are performed to confirm cash and benefit deduction recoveries at individual debtor level.

Where an overpayment cannot be immediately recovered, the majority of debt is not written off but is held with a view to recovery against any future benefit claim by that customer.

A general provision for bad and doubtful debt is made for debts where the Department cannot recover for the foreseeable future. The provision is derived from the debt balance less forecast cash and benefit deduction recoveries and write offs.

Certain categories of debt are written off, eg:

- Those due to official error where there is no statutory right of recovery, the debtor declines to repay voluntarily and it is not appropriate or cost effective to take civil proceedings;
- Cases satisfying Secretary of State waiver policies; and/or
- The customer is deceased and there is insufficient estate to recover the debt.

Debt write-off policy has been agreed with HM Treasury. To ensure it is applied consistently, detailed guidance is given in the Overpayment Recovery Guide and Government Accounting. Secretary of State waivers are referred to a central unit for a decision. The other write-off categories are decided at business unit level, with cases identified for write-off subject to agreement by line management. The Department undertakes additional management checks on the quality and consistency of write-off decision making through periodic business management and risk assurance checks. Any performance issues resulting from this assurance process are addressed through revised guidance and training.

In addition, the Department recognises a contingent liability in respect of an element of benefit debt that could be subject to challenge and consequent write off.

1.4 Estimation Techniques

(i) The calculation of bad debt provisions differs depending on the type of benefit.

The percentage for Social Fund bad debt provisions is calculated by reference to the previous two years' write-offs compared to the debt outstanding for these years. This percentage is then applied to the total Social Fund debt outstanding for the current year.

The bad debt provision for the payments made by the Compensation Recovery Unit (CRU) is based on likely future write-offs and is calculated on a case by case basis.

For contributory and non-contributory benefits the bad debt provision is calculated as detailed in Note 1.3 above.

(ii) In respect of the Financial Assistance Scheme, an estimate is made being the Net Present Value of the likely assistance payments. The estimate is based on an actuarial model of likely caseload. The Department recognises that the basis of the estimate is subject to uncertainty and may need adjustment in a subsequent year of account once actual caseloads are known. A remodelling of the estimate, based on more accurate data, is due to take place in Autumn 2006.

1.5 Tangible Fixed Assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount.

All computer hardware and software is treated as capital assets. For all other tangible assets the prescribed capitalisation level is £5,000, except for assets of HSC/E where it is £2,000. Where an item costs less than the capitalisation limit, but forms an integral part of a package whose total value is greater than the capitalisation level, then the item is treated as a capital asset. On initial recognition assets are measured at cost, including any costs such as installation directly attributable to bringing them into working condition.

For furniture and fittings, the total costs of maintaining a record of relatively low value individual items is considered to be prohibitive and therefore these items are recorded on a pooled basis.

Internally developed software is capitalised if it meets the criteria specified in the *FReM* which are adapted from SSAP 13 to take account of the not-for-profit context. Costs are classified as assets under construction until the asset is brought into service. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred.

All fixed assets, other than land and buildings, leasehold improvements, assets under construction and internally developed software are revalued by reference to appropriate HM Treasury approved indices.

Land and buildings are restated to current value using professional valuations in accordance with FRS 15 at least every 5 years and in the intervening years by use of published indices appropriate to the type of land or building.

Increases in value are credited to the revaluation reserve whilst decreases in value are debited to the revaluation reserve up to the level of depreciated historical cost for any asset previously revalued. Any excess devaluation is charged to the Operating Cost Statement along with devaluation on assets (such as computers) not previously revalued.

Each year, the realised element of the reserve (ie an amount equal to the excess of the actual depreciation over depreciation based on historical cost) is transferred from the reserve to the General Fund. On disposal of a revalued asset, the balance on the revaluation reserve in respect of that asset becomes fully realised and is transferred to the General Fund.

1.6 Land and Buildings

Land and buildings are valued on an existing use basis except for the specialist laboratory site which has been included at depreciated replacement cost. The respective values of all freehold properties and those leasehold properties that qualify as finance leases, are included in the balance sheet.

The Department does not include in its Balance Sheet capital values for the freehold and leasehold land and buildings which it occupies under the Private sector Resource Initiative for Management of the Estate (PRIME) and Newcastle Estates Development (NED) contracts. In accordance with FRS 5 the contracts have been treated as an operating sale and leaseback, as the risks and rewards of ownership have been substantially transferred to the Contractor.

The Department has accounted for the deferred benefit which will result from reduced accommodation charges from the NED contract by establishing a prepayment which is released annually, over the 30 year period of the contract, to the Operating Cost Statement on a straight-line basis (see Note 25).

The Integration of Estates Services (TIES) contract was undertaken in December 2003 as an extension to the existing PRIME PFI contract with Land Securities Trillium, in order to incorporate the ex-Employment Service estate. Under the terms of the contract, the Department received total consideration of £140 million, £100 million of which was in cash with the remainder being established as a prepayment to be released annually over the remainder of the contract term which expires 31 March 2018 (see Note 25).

A contract was undertaken by the Health and Safety Laboratory in October 2004 with ICB Ltd for laboratory and support functions. This is accounted for as an on-balance sheet contract. Under the terms of the contract, the Department received total consideration of £5.7 million, £1.2 million of which was in cash with the remainder being established as a prepayment to be released annually over the remainder of the contract term (see Note 25).

Expenditure in respect of major capital refurbishment and improvement of properties occupied but not owned by the Department is capitalised and reported under Leasehold Improvements (see Note 21). This is appropriate because the expenditure provides a long-term continuing benefit for the Department.

1.7 Depreciation

Freehold land is not depreciated.

Depreciation is provided on freehold buildings and all other tangible fixed assets, using the straight-line method, at rates calculated to write off the current replacement cost (less any estimated residual value) of each asset, in equal instalments over its expected useful life. Fixed assets are depreciated from the month following acquisition. No depreciation is charged in the month of disposal. Assets in the course of construction are not depreciated until the asset is brought into use.

Tangible fixed assets are depreciated over the following estimated useful lives:

Freehold Buildings	up to 50 years
Leasehold Buildings	period remaining on lease
PFI Leasehold Buildings	60 years designed life
Leasehold Improvements	10 years (or period remaining on lease if less than 10 years)
Information Technology	3 to 7 years
Software Development	5 years
Plant and Machinery	5 to 10 years
Furniture and Fittings	7 to 15 years (except HSL PFI contract which is 30 years)
Motor Vehicles	4 to 7 years

For vehicles acquired by the Health and Safety Executive car-leasing scheme, 60% of the original cost is depreciated over the three-year life of the contract.

1.8 Intangible Fixed Assets

Expenditure on purchased computer software licences, covering a period of more than one year, is capitalised at cost as intangible fixed assets. Expenditure on annual software licences is charged to the Operating Cost Statement. Should the Department purchase licences in advance they are only subject to amortisation once they are brought into use.

In view of the large number of software licences purchased across the Department, those capitalised are accounted for on a pooled basis with any items/pools amounting to over £100,000 identified individually. The licences are amortised, on a straight-line basis, over the shorter of the licence period or 5 years. Software licences are not revalued.

1.9 Investments

Financial interests in bodies which are outside the Departmental boundary are treated as fixed-asset investments since they are held for the long term.

At the balance sheet date, the shareholding in the joint venture Working Links (Employment) Ltd was held by the Office of the Secretary of State for Work and Pensions, with DWP Head Office and Corporate and Shared Services as the nominee shareholder. The company is operated and managed independently from the Department, and its accounts are not consolidated with those of the Department. Dividends are included within Operating Income. The investment is valued at the Department's one-third share of the net assets (or Nil in the case of net liabilities) as disclosed in the Company's accounts for the year ending 31 March 2006 (see Note 23).

1.10 Stocks and Work in Progress

Stocks and work in progress are valued as follows:

- goods for resale are valued at cost or, where materially different, current replacement cost and at net realisable value only when they cannot or will not be used; and
- work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

The Department also holds stocks of stationery, computer spares and similar consumable materials for its own use. Due to the nature of these items the Department does not consider it appropriate to reflect their value in the Balance Sheet. Accordingly, with the exception of HSE, the Department charges all expenditure on consumable items to the Operating Cost Statement.

1.11 Research and Development

Expenditure on research is written off in the year in which it is incurred.

1.12 Operating Income

Operating income is income which relates directly to the operating activities of the Department. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work; but it also includes other income such as that from investments. It includes both income appropriated in aid of the Estimate but also income to the Consolidated Fund which in accordance with the *FReM* is treated as operating income. Operating income is stated net of VAT (See Note 14).

1.13 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition set out in the *FReM*.

Administration costs reflect the costs of running the Department. These include both administrative costs and associated income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining outturn against the administration cost limit, and that operating income which is not.

Programme costs include programme expenditure, programme overheads and non-administration costs, including payments of grants and other disbursements by the Department.

In respect of grants, a liability arises when the grant recipient carries out the specific activity which forms the basis of the entitlement, or otherwise meets the grant entitlement criteria. Grants payable are recorded as expenditure during the period that the underlying event or activity giving entitlement to the grant occurs.

Programme expenditure comprises statutory payments which includes contributory benefit expenditure funded from the National Insurance Fund and expenditure borne by the Social Fund, in addition to the programme expenditure which is within the Supply Process.

Programme overheads consist of provisions, bad debts written off and capital charges on programme related net assets.

1.14 Special Aids to Employment

Since June 1996, Jobcentre Plus (formerly the Employment Service) has paid grants towards the cost of equipment for disabled people which is procured by employers. This is charged to expenditure in the year the equipment is purchased.

1.15 Capital Charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5% – 2004-05 3.5%) on the average carrying amount of all assets less liabilities, except for:

(a) intra departmental balances;

(b) cash balances with the Office of HM Paymaster General (OPG), where the charge is nil; and

(c) assets and liabilities in respect of amounts due from, or due to be surrendered to, the Consolidated Fund where the charge will be at a nil rate.

The capital charge is split between administration costs (see Note 11) and programme overheads (see Note 17) in accordance with the relative proportions of net assets.

1.16 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), details of which are described in Note 8. The defined benefit schemes are unfunded and are non-contributory except in respect of dependent's benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. Departments meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year. There is a separate scheme statement for the PCSPS as a whole. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk).

The current Chairman of the Health and Safety Commission is not a member of the PCSPS but arrangements exist whereby HSE make pension payments analogous to those that would have been made if he had been a member of the PCSPS and are payable out of the current year's funds that are made available. The appointment of Commission members is non-pensionable.

A small number of the Department's staff are members of the Local Government Pension Scheme (LGPS). The LGPS is a funded multi-employer contributory defined benefit scheme. The London Pensions Fund Authority (LPFA) administers the LGPS on behalf of the Department. Every three years independent actuaries carry out a valuation of the pension fund and set the rate at which the Department must contribute to fully fund the payment of the Scheme benefits for the Fund's membership. The latest formal valuation of the LPFA was carried out as at 31 March 2004.

1.17 Early Departure Costs

The Department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2% (2004-05 3.5%) in real terms. In past years the Department paid in advance some of its liability for early retirement by making a payment to the Paymaster General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining is treated as a prepayment which is disclosed within administration debtors (see Note 25).

1.18 Foreign Exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used.

1.19 Provisions

The Department provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cashflows are discounted using the real rate set by HM Treasury (currently 2.2%).

1.20 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

These comprise:

- items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Department entering into the agreement; and
- all items (whether or not they arise in the normal course of business) over £250,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the *FReM* to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.21 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Department, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease.

Other leases are regarded as operating leases and the rentals are charged to the Operating Cost Statement on a straight-line basis over the term of the lease.

1.22 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Technical Note No. 1 (Revised) entitled *How to account for PFI transactions* as required by the *FReM*.

Where the balance of the risks and rewards of ownership of the PFI asset are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Department has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where at the end of the PFI contract a property reverts to the Department, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year.

Where the balance of risks and rewards of ownership of the PFI asset is borne by the Department, the asset is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

1.23 Value Added Tax

Most of the activities of the Department are outside the scope of VAT and in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.24 Third-Party Assets

The Department's Child Support Agency holds, as custodian, certain monies belonging to third parties (see Note 43). These are not recognised in the accounts since neither the Department nor Government more generally has a direct beneficial interest in them.

2. Analysis of Net Resource Outturn by Function

	2005-06								Restated 2004-05
	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn compared with Estimate Saving/ (Excess)	Prior-Year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
RfR 1: Ensuring the best start for all children and ending child poverty in 20 years									
Spending in Departmental Expenditure Limits (DEL)									
Central Government Spending									
A Administration	394,644	3,236	–	397,880	(171)	397,709	410,212	12,503	359,719
	394,644	**3,236**	–	**397,880**	**(171)**	**397,709**	**410,212**	**12,503**	**359,719**

	2005-06								Restated 2004-05
	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn compared with Estimate Saving/ (Excess)	Prior-Year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
RfR 2: Promote work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need									
Spending in Departmental Expenditure Limits (DEL)									
Central Government Spending									
A Administration	2,510,074	62,112	46,650	2,618,836	(666,560)	1,952,276	1,948,527	(3,749)	2,107,431
B Employment programmes	(347)	890,974	104,717	995,344	(29,109)	966,235	1,024,111	57,876	1,054,593
C Health and Safety Executive	229,912	69,473	–	299,385	(55,871)	243,514	246,095	2,581	215,650
D Health and Safety Laboratory	32,244	5,273	–	37,517	(35,394)	2,123	–	(2,123)	–
E Capital Grants	–	–	2,302	2,302	–	2,302	8,476	6,174	7,756
F The Rent Service Executive Agency	36,499	–	–	36,499	–	36,499	43,397	6,898	39,424
G European Social Fund	–	–	159,940	159,940	–	159,940	33,614	(126,326)	18,354
H European Social Fund payments in advance of receipts	–	–	320,944	320,944	–	320,944	427,105	106,161	475,655
Support for Local Authorities									
I Employment Programmes	–	–	68,876	68,876	–	68,876	37,047	(31,829)	32,591
J Challenge funding and similar administrative measures–Local Authorities	–	–	144,992	144,992	–	144,992	140,000	(4,992)	130,177
K Housing benefit and council tax benefit administration grants	–	–	482,417	482,417	–	482,417	502,500	20,083	439,845
L Third Party providers	–	–	–	–	–	–	–	–	–
M Capital grants to Local Authorities	–	–	419	419	–	419	2,895	2,476	1,168
N European Social Fund	–	–	(3,792)	(3,792)	–	(3,792)	3,009	6,801	(7,579)
O European Social Fund payments in advance of receipts	–	–	52,855	52,855	–	52,855	51,786	(1,069)	57,673
Spending in Annually Managed Expenditure (AME)									
Central Government Spending									
P Severe Disablement Allowance	–	–	900,252	900,252	–	900,252	916,704	16,452	918,557
Q Industrial injury benefits	–	–	787,740	787,740	–	787,740	800,373	12,633	792,919

	2005-06								Restated 2004-05
	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn compared with Estimate Saving/ (Excess)	Prior-Year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
R Income support (under 60 years of age)	–	–	9,164,465	9,164,465	(103,591)	9,060,874	9,130,069	69,195	9,937,209
S Jobseekers allowance (income based)	–	–	1,824,509	1,824,509	(1,398)	1,823,111	1,833,512	10,401	1,759,348
T Jobseekers allowance (contribution based)	–	–	485,467	485,467	(485,467)	–	–	–	–
U Job Grant	–	–	38,134	38,134	–	38,134	35,436	(2,698)	18,285
V Employment Allowances	–	–	71,749	71,749	–	71,749	92,988	21,239	87,498
W Housing and Council tax benefit capital charge	–	–	(8,446)	(8,446)	–	(8,446)	3,277	11,723	(5,858)
X Non-continuing benefits debt activity	–	–	214	214	–	214	35	(179)	391
Support for Local Authorities									
Y Housing benefit and council tax benefit subsidies	–	–	12,115,501	12,115,501	–	12,115,501	12,172,789	57,288	11,254,974
Z Rent rebates	–	–	5,050,727	5,050,727	–	5,050,727	5,224,387	173,660	4,986,932
AA Discretionary housing payments	–	–	16,864	16,864	–	16,864	20,000	3,136	15,783
Non-budget									
AB Statutory benefits (SSP and SMP)	–	–	1,325,018	1,325,018	–	1,325,018	1,326,538	1,520	1,375,924
AC European Social Fund	–	–	30,857	30,857	(529,947)	(499,090)	(482,814)	16,276	(544,103)
	2,808,382	**1,027,832**	**33,183,371**	**37,019,585**	**(1,907,337)**	**35,112,248**	**35,541,856**	**429,608**	**35,170,597**

RfR 3: Combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners

	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn compared with Estimate Saving/ (Excess)	Prior-Year Outturn
Spending in Departmental Expenditure Limits (DEL)									
Central Government spending									
A Administration	621,870	23,075	–	644,945	(497,809)	147,136	159,385	12,249	401,396
Spending in Annually Managed Expenditure (AME)									
Central Government spending									
B Pension benefits	–	–	1,215,228	1,215,228	–	1,215,228	1,174,059	(41,169)	776,247
C Income support for the elderly and Pension Credit	–	–	6,508,526	6,508,526	–	6,508,526	6,593,187	84,661	6,100,649
D TV licences for the over 75s	–	–	460,573	460,573	–	460,573	451,016	(9,557)	435,493
E Payments to the Social Fund	–	–	2,304,694	2,304,694	–	2,304,694	2,371,647	66,953	2,255,889
F Pensions Grants in Aid	–	–	37,148	37,148	–	37,148	36,431	(717)	21,584
	621,870	**23,075**	**10,526,169**	**11,171,114**	**(497,809)**	**10,673,305**	**10,785,725**	**112,420**	**9,991,258**

	2005-06								Restated 2004-05
	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn compared with Estimate Saving/ (Excess)	Prior-Year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
RfR 4: Improve the rights and opportunities for disabled people in a fair and inclusive society									
Spending in Departmental Expenditure Limits (DEL)									
Central Government spending									
A Administration	197,407	6,726	–	204,133	(818)	203,315	209,082	5,767	167,101
B Motability administration	–	–	2,800	2,800	(160)	2,640	2,800	160	2,551
Spending in Annually Managed Expenditure (AME)									
Central Government spending									
C Attendance Allowance	–	–	3,924,095	3,924,095	–	3,924,095	3,901,178	(22,917)	3,673,790
D Disability Living Allowance	–	–	8,618,262	8,618,262	–	8,618,262	8,648,508	30,246	8,079,490
E Carer's Allowance	–	–	1,149,141	1,149,141	–	1,149,141	1,193,773	44,632	1,096,133
F Vaccine Damage Payments	–	–	500	500	–	500	500	–	429
G Grants to independent bodies	–	–	241,252	241,252	(474)	240,778	234,483	(6,295)	217,132
Non-budget									
H Disability Rights Commission (Grant in Aid)	–	–	21,641	21,641	–	21,641	21,641	–	16,597
	197,407	**6,726**	**13,957,691**	**14,161,824**	**(1,452)**	**14,160,372**	**14,211,965**	**51,593**	**13,253,223**
RfR 5: Corporate contracts and support services									
Spending in Departmental Expenditure Limits (DEL)									
Central Government spending									
A Administration	2,064,905	99,453	–	2,164,358	(82,496)	2,081,862	2,142,722	60,860	1,678,316
	2,064,905	**99,453**	**–**	**2,164,358**	**(82,496)**	**2,081,862**	**2,142,722**	**60,860**	**1,678,316**
	6,087,208	**1,160,322**	**57,667,231**	**64,914,761**	**(2,489,265)**	**62,425,496**	**63,092,480**	**666,984**	**60,453,113**

Explanation of the variation between Estimate and Outturn:

Detailed explanations of the variances are given in the Management Commentary.

3. Reconciliation of outturn to net operating cost and against Administration Budget

(a) Reconciliation of net resource outturn to net operating cost

		2005-06			2004-05
		Outturn	Supply Estimate	Outturn compared with Estimate Saving/ (Excess)	Outturn
	Note	£000	£000	£000	£000
Net Resource Outturn	2	62,425,496	63,092,480	666,984	60,453,113
Non-supply Expenditure	16b	59,654,824	59,731,998	77,174	57,042,305
Non A in A operating income		1,108,186	1,108,186	–	1,157,160
Excess of Social Fund Operating cost expenditure over Social Fund grant		57,033	(13,682)	(70,715)	7,883
Income payable to the Consolidated Fund (excess A in A)		–	–	–	(54)
Income payable to the Consolidated Fund (non A in A)		(97,251)	–	97,251	(7)
Other non-voted expenditure		–	4,000	4,000	–
Net operating cost		**123,148,288**	**123,922,982**	**774,694**	**118,660,400**

Non A in A operating income is amounts received in respect of National Insurance Fund administration costs.

(b) Outturn against final Administration Budget

	Note	Budget	2005-06 Outturn	2004-05 Outturn
		£000	£000	£000
Gross Administration Budget	2	6,171,413	6,087,208	6,184,087
Expenditure excluded from the Administration Budget		(29,889)	(35,116)	(23,511)
Income allowable against the Administration Budget		(118,332)	(117,230)	(100,723)
Non-Voted expenditure within the Administration Budget		5,735	9,713	(2,783)
Net outturn against final Administration Budget		**6,028,927**	**5,944,575**	**6,057,070**

4. Reconciliation of resources to cash requirement

		2005-06			Restated 2004-05
		Estimate	Outturn	Net Total Outturn compared with Estimate: saving/ (excess)	Prior-Year Outturn
	Note	£000	£000	£000	£000
Resource Outturn	2	63,092,480	62,425,496	666,984	60,453,113
Capital:					
Acquisition of fixed assets	32c	462,352	390,829	71,523	297,338
Investments		–	–	–	–
Non-Operating Cost A in A					
Proceeds of fixed asset disposals	7	(10,391)	(8,700)	(1,691)	(7,518)
Accruals adjustments					
Non-cash items	10b	(296,216)	(511,005)	214,789	(451,526)
Changes in working capital other than cash		885,674	1,064,837	(179,163)	(1,828,448)
Changes in creditors falling due after more than one year		–	–	–	(8,114)
Use of provision		754	72,866	(72,112)	58,801
Cash receipts surrenderable to the Consolidated Fund			(50,269)	50,269	–
Net Cash Requirement		**64,134,653**	**63,384,054**	**750,599**	**58,513,646**

Explanation of the variation between Estimate and Outturn:

Detailed explanations of the variances are given in the Management Commentary.

5. Analysis of income payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Forecast 2005-06		Outturn 2005-06	
	Income	Receipts	Income	Receipts
	£000	*£000*	£000	*£000*
Operating income and receipts – excess A in A	–	–	–	–
Other operating income and receipts not classified as A in A	–	–	97,251	*50,275*
	–	–	97,251	*50,275*
Non-operating income and receipts – excess A in A	–	–	–	–
Other non-operating income and receipts not classified as A in A	–	–	32,621	*32,621*
Other amounts collectable on behalf of the Consolidated Fund	7,222	*7,202*	–	–
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
Total income payable to the Consolidated Fund	**7,222**	***7,202***	**129,872**	***82,896***

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2005-06	2004-05
		£000	£000
Operating income	14	1,024,596	874,894
Adjustments for transactions between RfRs		–	–
Gross income		1,024,596	874,894
NIF and other Admin adjustments		1,076,453	1,126,858
Netted off gross expenditure		485,467	444,432
Income authorised to be appropriated-in-aid		(2,489,265)	(2,446,123)
Operating income payable to the Consolidated Fund	5	**97,251**	**61**

7. Non-Operating A in A income

	2005-06		2005-06	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Proceeds from disposal of fixed assets	**8,700**	***8,700***	**7,518**	***2,979***

In 2005-06 the Department received £6.0 million in respect of the sale of Land and Buildings and £2.7 million from the sale of vehicles. In 2004-05 the Department received £5.7 million consideration from the sale of accommodation to ICB Ltd, £1.2 million of which was received in cash (see Note 1.6).

8. Staff Numbers and Related Costs

(a) Staff costs

Staff costs comprise:

	2005-06					Restated 2004-05
	Permanently employed staff	Others	Ministers	Special Advisers	Total	Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	2,455,976	76,322	359	253	2,532,910	**2,584,032**
Employer's National Insurance	170,654	1,249	32	28	171,963	**176,025**
Superannuation and Pension costs	515,281	77	–	–	515,358	**329,885**
	3,141,911	**77,648**	**391**	**281**	**3,220,231**	**3,089,942**
Non-cash Staff costs	(1,203)	–	–	–	(1,203)	–
	3,140,708	**77,648**	**391**	**281**	**3,219,028**	**3,089,942**
Less recoveries in respect of outward secondments	(4,463)	–	–	–	(4,463)	**(10,278)**
Total Net Costs	**3,136,245**	**77,648**	**391**	**281**	**3,214,565**	**3,079,664**

The Principal Civil Service Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Department is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £484.4 million were payable to the PCSPS (2004-05 £312.2 million) at one of four rates in the range 16.2 to 24.6% (2004-05: 12 to 18.5%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2005-06 and will remain unchanged until 2008-09. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. In addition, an amount of £3.3 million was payable in respect of the Local Government Pension Scheme (LGPS) contributions for staff employed by the Rent Service.

Outstanding contributions amounting to £30.6 million (2004-05 £7.5 million) were payable to the Civil Superannuation Vote at 31 March 2006 and are included in creditors (See Note 27).

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £0.5 million (2004-05 £0.5 million) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5% (2004-05: 3 to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £29,992 (2004-05 £10,389), 0.8% of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

177 persons (2004-05 214 persons) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £0.8 million (2004-05 £0.8 million). These liabilities are not the responsibility of the Department but are to be paid by the Civil Superannuation Vote.

(b) Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below. These figures include those working in the Core Department as well as in Agencies and other bodies included within the consolidated Departmental Resource Account.

Staff numbers are not comparable as the apportionment of staff across the objectives has been calculated on a different basis this year. Additionally, the Modernisation objective 5 for 2004-05 has been replaced with a new objective for 2005-06 relating to Payment Accuracy.

Objective	Permanent staff	Others	Ministers	Special Advisers	Total	2004-05 Number Total
	2005-06 Number					
1 (Children)	10,722.0	489.0	–	–	11,211.0	**9,944.0**
2 (Work)	83,553.0	1,964.0	5.0	3.0	85,525.0	**84,951.5**
3 (Pensions)	17,484.0	42.0	–	–	17,526.0	**17,801.0**
4 (Disabled)	7,332.0	11.0	–	–	7,343.0	**6,938.0**
5 (Payment Accuracy)	610.0	–	–	–	610.0	–
5 (Modernisation – 2004-05 only)	–	–	–	–	–	**5,726.0**
Total	**119,701.0**	**2,506.0**	**5.0**	**3.0**	**122,215.0**	**125,360.5**

As at 31 March 2006, 118,490.0 whole-time equivalent persons were employed by the Department.

Objective 1:
To ensure the best start for all children and end child poverty by 2020.

Objective 2:
To promote work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need.

Objective 3:
To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners.

Objective 4:
To improve rights and opportunities for disabled people in a fair and inclusive society.

Objective 5:
To ensure customers receive a high quality service, including high levels of accuracy.

9. Other Administration Costs

	Note		2005-06 £000		Restated 2004-05 £000
Goods and Services	9a		1,211,896		1,353,715
Accommodation costs			208,509		183,904
Rentals under operating leases:					
Hire of plant and machinery		7,951		9,735	
Other operating leases		10,188		10,796	
			18,139		20,531
PFI service charges:					
Off-balance sheet contracts		753,313		943,273	
Service element of on-balance sheet contracts		3,062		1,325	
			756,375		944,598
Audit fee for HSE	9b		83		83
Compensation payments to customers			17,571		9,062
Non-cash items	10		309,381		204,929
Other	9c		628,377		479,790
			3,150,331		**3,196,612**

a. Goods and Services expenditure of £1.2 billion (2004-05 £1.4 billion) includes the cost of services provided by Post Office Ltd and Alliance and Leicester Commercial Bank. This consists of encashment costs of £64.9 million (2004-05 £263.5 million) and Post Office Card Account costs amounting to £200.6 million (2004-05 £136.6 million). Other elements included are postage, printing and stationery, minor capital items, medical evidence, external consultancy costs, utilities and staff training.

b. There were no fees in respect of non-audit work during 2005-06 and 2004-05.

c. Other costs of £0.6 billion (2004-05 £0.5 billion) include I.T. services and tribunal expenses.

10. Other Administration Costs: Non-cash items

(a)

	Note	2005-06 £000	Restated 2004-05 £000
Notional costs	11	18,295	9,629
Depreciation of fixed assets	21c/22	131,647	115,324
(Profit)/Loss on disposal of fixed assets	21c	(128)	9,725
Impairment of fixed assets	21b	23,428	12,217
Amortisation of prepayments		32,200	18,163
Provisions:			
Movement in year		101,751	37,117
HSE Chairmen's Pension		564	45
Unwinding of discount		997	819
Other		627	1,890
		309,381	**204,929**

(b) The non-cash items included in the Reconciliation of Resources to Net Cash Requirement in Note 4 comprises:

	Note	2005-06 £000	2005-06 £000	Restated 2004-05 £000	Restated 2004-05 £000
Administration non-cash transactions	10a		309,381		204,929
Staff non-cash transactions	8a		(1,203)		–
Programme non-cash transactions	17	186,646		238,357	
Less: Social Fund capital charge	20	(17,478)		(19,832)	
NIF capital charge	16b	33,676		28,089	
			202,844		246,614
Non-cash income:					
Government Grant Reserve	31b		(17)		(17)
			511,005		**451,526**

11. Notional administration costs

Certain services are provided and received by the Department without the transfer of cash. An amount of £18.3 million (2004-05 £9.6 million) has been included in the net cost of operations to reflect these costs and is comprised as follows:

	Note	2005-06 £000	2004-05 £000
Cost of capital charge		16,113	7,853
Auditors remuneration and expenses	11a	1,898	1,499
Other Government Departments		284	277
		18,295	**9,629**

a. The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. There were no fees in respect of non-audit work during 2005-06 and 2004-05. £230,000 (2004-05 £160,000) relates to the audit of the CSA Client Funds account, which is outside the Departmental boundary, but whose administration costs are borne by the CSA.

12. Non-cash items

	Note	2005-06 £000	Restated 2004-05 £000
Administration Costs	10a	309,381	204,929
Staff non-cash costs	8	(1,203)	–
Programme Costs	17	186,646	238,357
Programme Income		(46,976)	–
Income: Government Grant Reserve	31b	(17)	(17)
		447,831	**443,269**

13. Net Programme Costs

	Note	2005-06 £000	2004-05 £000
Current grants and other current expenditure	13a	57,323,017	55,314,078
Research and Development		19,904	16,566
Programme overheads	17	262,790	320,668
Non-Supply expenditure: contributory benefits	16	59,667,867	57,053,553
Agency payments on behalf of EU to third parties	13b	529,947	543,875
Gross programme spend		**117,803,525**	**113,248,740**
Other programme income		(142,054)	(131,734)
EU income		(687,714)	(600,844)
Net programme costs		**116,973,757**	**112,516,162**

a. Current grants and other current expenditure and contributory benefits expenditure is the amount of expenditure incurred in year (net of overpayments) and excludes programme overheads. The expenditure analysed in Note 2 includes programme overheads.

b. EU income and payments relate to funding received and payments made from the European Social Fund (ESF), which provides European Union (EU) funding for long term programmes to help regions across Europe upgrade and modernise their workforce skills. The Department acts as a paying agent on behalf of the EU.

14. Income

	RfR1	RfR2	RfR3	RfR4	RfR5	2005-06 Total	Restated 2004-05 Total
	£000	£000	£000	£000	£000	£000	£000
Administration							
Fees and charges to other government departments	44	1,564	1,763	452	12,000	15,823	18,301
Income from mortgage lenders	–	608	521	–	469	1,598	2,517
Amortisation of Government Grants	1	–	–	–	16	17	17
Income from outside bodies	–	944	–	42	23,443	24,429	1,620
Income from accommodation	–	–	–	–	17,808	17,808	22,556
Law costs from defendants	1	11	–	–	1,428	1,440	1,815
International labour organisation	–	9,489	–	–	–	9,489	9,638
Single International Programme	–	21,671	–	–	–	21,671	22,099
European Union division	–	2,750	–	–	–	2,750	2,065
Pension levy income	–	–	41,140	–	–	41,140	–
Secondment	–	1,559	184	92	609	2,444	6,525
HSE Administrative income	–	51,686	–	–	–	51,686	50,014
Other miscellaneous income	125	2,373	18	1	2,016	4,533	5,149
						194,828	**142,316**
Programme							
Benefit income							
– New Deal	–	1,511	–	–	–	1,511	1,632
– Help for unemployed people	–	23,853	–	230	–	24,083	106
– Income Support	–	103,591	–	–	–	103,591	120,149
– Jobseeker's Allowance	–	1,398	–	–	–	1,398	51
– Motability receipts	–	–	–	634	–	634	687
ESF income	–	60,522	–	–	–	60,522	56,741
EU income where DWP acts as agent for payments to third parties	–	529,947	–	–	–	529,947	544,103
Exchange rate gains	–	97,245	–	–	–	97,245	–
HSE Programme income	–	7,872	–	–	–	7,872	7,212
						826,803	**730,681**
NIF income						**2,965**	**1,897**
						1,024,596	**874,894**

HSE administrative income includes licensing and safety of the nuclear industry, control of major accident hazards, railway safety and offshore safety.

An analysis of the services for which a fee is charged, for fees and charges purposes, is not available.

15. Analysis of Net Operating Cost by Spending Body

	2005-06 Outturn	Restated 2004-05 Outturn
	£000	£000
DWP Head Office and Corporate and Shared Services	116,734,244	112,560,266
Child Support Agency	465,222	425,587
Jobcentre Plus	4,543,579	4,402,398
Appeals Service	68,149	66,221
The Pension Service	748,584	830,552
Health and Safety Commission and Executive	245,661	215,544
The Rent Service	36,493	39,417
Disability and Carers Service	306,356	120,415
	123,148,288	**118,660,400**

The Disability and Carers Service came into effect in November 2004. The outturn figures above are not comparable as the amount for 2004-05 only represents five months of Net Operating Costs.

16. Non-Supply Expenditure

(a) Contributory Benefits

	2005-06 £000	2004-05 £000
Pensions Benefit		
Retirement Benefit		
Basic element	41,754,745	40,018,181
Earnings-related component	9,629,562	8,746,948
Christmas Bonus	123,873	123,015
Widows' Benefit		
Basic element	540,585	586,619
Earnings-related component	152,110	175,008
Bereavement Benefits	181,378	160,153
Unemployment Benefits		
Jobseeker's Allowance – Contribution Based	485,447	444,339
Unemployment Benefit	(56)	384
Sickness Benefit	(409)	(399)
Incapacity Benefit		
Short-term and Long-term	6,023,607	6,022,564
Earnings-related component	613,765	629,500
Invalidity Benefit	(357)	(2,517)
Family Benefits		
Maternity Allowance	163,617	149,758
	59,667,867	**57,053,553**

(b) Total Non-Supply expenditure

	Note	2005-06 £000	2004-05 £000
Contributory Benefits	16a	59,667,867	57,053,553
NIF income		(2,965)	(1,897)
NIF write-offs and movement on bad debt provision		25,646	17,569
NIF Movement on CRU Provision		(2,048)	1,169
NIF capital charge		(33,676)	(28,089)
	3a	**59,654,824**	**57,042,305**

17. Programme Overheads

	Note	2005-06 £000	2005-06 £000	Restated 2005-06 £000	Restated 2005-06 £000
Programme balances written off	19		76,144		82,311
Non-Cash Items:					
Movement in provision for doubtful debt	18	170,257		51,114	
Movement in other provisions		(597)		198,559	
Unwinding of discount	28	33,649		–	
Notional Costs:					
Cost of Capital charge	20	(16,663)		(11,316)	
	10b		186,646		238,357
			262,790		**320,668**

18. Provision for doubtful debt: Programme

The movement in the provision for doubtful debt relates to the following benefits:

	2005-06	2004-05
	£000	£000
Contributory Benefits	14,263	9,708
Non-Contributory Benefits	94,277	49,122
Social Fund Payments	50,141	(7,716)
European Social Fund	11,576	–
	170,257	**51,114**

19. Programme balances written off

These consist of the write-off of the following benefits:

	2005-06	2004-05
	£000	£000
Contributory Benefits		
Pensions Benefits	8,789	5,045
Incapacity Benefit	2,548	2,743
Other	46	73
Non-Contributory Benefits		
Disability Benefits	11,714	12,855
Income Support	7,139	19,675
Family Benefits	5	38
Other	870	1,285
Social Fund Payments		
Funeral Payments	41,943	38,101
Other	3,090	2,268
European Social Fund	–	228
	76,144	**82,311**

20. Cost of Capital: Programme

The capital charge on programme assets and liabilities consists of:

	Note	2005-06	2004-05
		£000	£000
Cost of Capital charged on:			
Cash with Paying Agents		2,008	7,024
Social Fund Payments		17,478	19,832
NIF	16b	(33,676)	(28,089)
Other Programme net assets (excluding amounts due to HM Treasury and Paymaster balances)		(2,473)	(10,083)
		(16,663)	**(11,316)**

The capital charge on programme net assets has been apportioned over the Requests for Resources on the basis of programme expenditure levels, taking account of whether the funding of those benefits is from voted expenditure, National Insurance or Social Funds.

21. Tangible Fixed Assets

	Note	Land and Buildings	Leasehold Improvements	Information Technology	Plant and Machinery	Furniture and Fittings	Motor Vehicles	Payments on Account and Assets Under Construction	Internally Developed Software	Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation										
At 1 April 2005		66,480	457,842	321,453	26,927	27,956	36,484	95,011	2,742	1,034,895
Additions	21a	82	246,566	8,352	674	1,702	5,867	109,313	7,527	380,083
Disposals		(4,256)	(2,229)	(4,622)	(1,266)	(4,266)	(2,896)	–	–	(19,535)
Reclassifications		–	–	31,594	42	252	–	(109,066)	71,398	(5,780)
Revaluations	21b	1,181	–	(45,954)	118	334	312	–	–	(44,009)
At 31 March 2006		**63,487**	**702,179**	**310,823**	**26,495**	**25,978**	**39,767**	**95,258**	**81,667**	**1,345,654**
Depreciation										
At 1 April 2005		1,111	80,123	161,830	20,765	12,093	17,487	–	333	293,742
Charged in year	21c	1,139	43,078	54,283	1,396	2,769	6,506	–	9,140	118,311
Disposals		(655)	(565)	(3,322)	(1,135)	(3,456)	(1,830)	–	1	(10,962)
Reclassifications		(1)	1	–	–	–	–	–	(482)	(482)
Revaluations	21b	(37)	–	(22,558)	87	172	195	–	–	(22,141)
At 31 March 2006		**1,557**	**122,637**	**190,233**	**21,113**	**11,578**	**22,358**	**–**	**8,992**	**378,468**
Net Book Value at 31 March 2006		**61,930**	**579,542**	**120,590**	**5,382**	**14,400**	**17,409**	**95,258**	**72,675**	**967,186**
Net Book Value at 31 March 2005		65,369	377,719	159,863	6,164	15,863	18,997	95,011	2,167	741,153
Restatements		–	–	(240)	(2)	–	–	–	242	–
Restated Net Book Value at 31 March 2005		**65,369**	**377,719**	**159,623**	**6,162**	**15,863**	**18,997**	**95,011**	**2,409**	**741,153**
Asset financing:										
Owned		5,386	579,542	120,590	5,382	11,845	17,409	94,543	72,675	907,372
Finance leased		–	–	–	–	–	–	–	–	–
On-balance sheet PFI Contracts		56,544	–	–	–	2,555	–	–	–	59,099
PFI residual interests		–	–	–	–	–	–	715	–	715
Net Book Value at 31 March 2006		**61,930**	**579,542**	**120,590**	**5,382**	**14,400**	**17,409**	**95,258**	**72,675**	**967,186**

a. Total additions in the year were £380.1 million (2004-05 £272.3 million). This consisted of £379.8 million (2004-05 £271.2 million) of capital expenditure and £0.3 million (2004-05 £1.1 million) of assets which had been purchased prior to 2005-06 but which had previously been charged as expenditure.

b. The net increase in asset values arising from the revaluation of fixed assets of £1.5 million (2004-05 £6.9 million) has been transferred to the Revaluation Reserve. The impairment in fixed assets arising from the permanent decrease in value of £23.4 million (2004-05 £12.2 million) in excess of previous revaluation has been charged to the Operating Cost Statement.

c. Total depreciation in the year was £118.3 million (2004-05 £116.9 million). This consisted of £129.0 million (2004-05 £114.3 million) charged to the Operating Cost Statement and £(10.7) million (2004-05 £2.6 million) relating to assets purchased prior to 2005-06 charged to the General Fund. The in year depreciation charge for On-balance Sheet PFI Contracts is £1.0 million. The profit on sale of fixed assets charged to the Operating Cost Statement in the year is £0.1 million (2004-05 loss of £9.7 million).

Land and Buildings comprise the following:

	Freeholds	Short Leaseholds	Total
	£000	**£000**	**£000**
Cost or Valuation			
At 1 April 2005	8,603	57,877	66,480
Additions	82	–	82
Disposals	(4,256)	–	(4,256)
Reclassification	774	(774)	–
Revaluations	157	1,024	1,181
At 31 March 2006	**5,360**	**58,127**	**63,487**
Depreciation			
At 1 April 2005	684	427	1,111
Charged in year	179	960	1,139
Disposals	(655)	–	(655)
Reclassification	(1)	–	(1)
Revaluations	(61)	24	(37)
At 31 March 2006	**146**	**1,411**	**1,557**
Net Book Value At 31 March 2006	**5,214**	**56,716**	**61,930**
Net Book Value at 31 March 2005	**7,919**	**57,450**	**65,369**

d. The Department, with the exception of HSE, does not include in its Balance Sheet capital values of the land and buildings that it occupies. All properties are leased, the majority under a Private Finance Initiative contract with Land Securities Trillium. Costs incurred during the year in respect of major refurbishment and improvement of these properties has been capitalised as Leasehold Improvements.

e. Health and Safety Commission and Executive

Jones Lang LaSalle professionally revalued all land and building assets on the Buxton site as at 31 March 2005. Additionally, the freehold property at Carlisle was independently valued at 31 March 2006 by Donaldsons, Chartered Surveyors. In each case, the valuations were in accordance with the Appraisal and Valuation Standards of the Royal Institute of Chartered Surveyors (RICS).

f. Cash Flow Reconciliation

	Note	2005-06	Restated 2004-05
		£000	**£000**
Capital Creditors and Accruals at 1 April	27	60,088	7,752
Capital Prepayments at 1 April	25	(271)	–
Movement on long-term creditors		1,533	–
Restatement		–	165
Capital additions		379,788	271,254
Capital Prepayments at 31 March	25	–	271
Capital Creditors and Accruals at 31 March	27	(145,920)	(60,088)
Purchases of Tangible Fixed Assets as per Note 32b		**295,218**	**219,354**

22. Intangible Fixed Assets

The Department's intangible fixed assets comprise purchased software licences.

	Purchased software licences
	£000
Cost or valuation	
At 1 April 2005	27,503
Additions	11,283
Disposals	(27)
Reclassifications	5,780
Revaluation	–
At 31 March 2006	**44,539**
Amortisation	
At 1 April 2005	1,715
Charged in year	2,636
Disposals	(27)
Reclassifications	482
Revaluation	–
At 31 March 2006	**4,806**
Net book value at 31 March 2006	**39,733**
Net book value at 31 March 2005	**25,788**

Cash Flow Reconciliation

		2005-06	2004-05
	Note	**£000**	**£000**
Capital additions		11,041	26,084
Capital Prepayments at 31 March	25	–	–
Capital Creditors and Accruals at 31 March	27	(58)	–
Purchases of Intangible Fixed Assets as per Note 32b		**10,983**	**26,084**

23. Investments

	2005-06 Working Links (Employment) Ltd Share Capital
	£000
Balance at 1 April 2005	214
Additions	–
Disposals	–
Revaluations	909
Balance at 31 March 2006	**1,123**

The only investment held by the Department for Work and Pensions at the balance sheet date comprised 100 Ordinary Shares, with a nominal value of £1 each, in Working Links (Employment) Limited, a joint venture with Manpower plc, Capgemini UK plc and Mission Australia. The valuation is based on the one-third share that the Department has of the company's net assets based on its audited accounts for the year ended 31 March 2006. There has been no change in the number of shares owned by the Department during the year.

The net assets and results of the above body is summarised below.

	Working Links (Employment) Ltd
	£000
Net assets at 31 March 2006	3,368
Turnover	55,077
Surplus/profit for the year (before financing)	3,605

The Department has a one-third share of the above figures.

24. Stocks and Work in Progress

	2005-06	2004-05
	£000	£000
Consumables	48	59
Work in Progress	446	677
Finished Stock for sale	755	884
	1,249	**1,620**

Stock and Work in Progress consists of publications, stationery and other office consumables and protective clothing in relation to the Health and Safety Executive.

25. Debtors

Analysis by type

Administration Debtors

	Note	31 March 2006	Restated 31 March 2005
		£000	£000
Amounts falling due within one year			
Trade debtors		28,043	17,354
Deposits and Advances	25a	2,582	2,704
Amounts due from Other Government Departments		66,122	29,052
VAT		73,904	83,675
Amounts owed by Working Links (Employment) Ltd		2	1,506
Other debtors		25,996	16,480
Prepayments and accrued income		78,454	31,878
Early departure prepayment	28a	413	618
Accommodation prepayment		948	948
TIES prepayment		2,791	2,791
TREDSS prepayment		48,734	–
CSR prepayment		–	6,924
HSE prepayment		153	154
Capital prepayments		–	271
Provision for bad and doubtful debts		(1,740)	(7,111)
Amounts due from the Consolidated Fund		106,605	–
		433,007	**187,244**
Amounts falling due after more than one year			
Deposits and advances	25a	1,234	1,436
Prepayments and accrued income		71	139
Early departure prepayment	28a	179	592
Accommodation prepayment		19,918	20,866
TIES prepayment		30,698	33,489
TREDSS prepayment		166,520	–
CSR prepayment		–	30,583
HSE prepayment		4,230	4,383
		222,850	**91,488**

Programme Debtors

	Note	Gross Debtors £000	Provision for Doubtful Debt £000	31 March 2006 Net Debtors £000	Restated 31 March 2005 Net Debtors £000
Amounts falling due within one year					
Benefit Overpayments					
Contributory Benefits	25b	42,139	(19,316)	22,823	20,231
Non-Contributory Benefits	25b	119,341	(67,999)	51,342	81,569
Housing Benefit and Council Tax	25c	160,047	–	160,047	189,942
Social Fund		42	–	42	45
European Social Fund		–	–	–	16,209
Prepayments					
Contributory Benefits		222,499	–	222,499	260,269
Non-Contributory Benefits		101,755	–	101,755	127,337
Employment Benefits		–	–	–	51,250
Social Fund					
Funeral Payments		1,031	(954)	77	562
Other Loans		411,305	(1,161)	410,144	376,601
European Social Fund and Other EU Debtors	25e/27c	1,278,242	(25,281)	1,252,961	1,237,007
Other Programme Debtors	25d	8,060	–	8,060	10,632
		2,344,461	**(114,711)**	**2,229,750**	**2,371,654**
Amounts falling due after more than one year					
Benefit Overpayments					
Contributory Benefits	25b	136,488	(67,069)	69,419	61,376
Non-Contributory Benefits	25b	1,129,316	(502,527)	626,789	542,081
Social Fund		91	–	91	101
Social Fund					
Funeral Payments		100,084	(92,568)	7,516	55,131
Other Loans		267,011	(737)	266,274	246,629
Other Programme Debtors		1,729	–	1,729	1,729
		1,634,719	**(662,901)**	**971,818**	**907,047**
Total Debtors				**3,857,425**	**3,557,433**
Of which					
Due within one year				2,662,757	2,558,898
Due after one year				1,194,668	998,535

a. Deposits and advances due within one year includes £0.1 million (2004-05 £0.2 million) of house purchase advances due from 186 (2004-05 334) members of staff. Those due after more than one year include £1.1 million (2004-05 £1.4 million) due from 232 (2004-05 269) members of staff.

b. Included in Contributory Benefits overpayments is an amount of £3.6 million (2004-05 £5.9 million) in respect of Compensation Recovery Unit debtors. The amount included within Non-Contributory Benefit overpayments is £7.3 million (2004-05 £6.8 million).

c. The Department makes monthly payments of Housing Benefit and Council Tax Benefit subsidy to local authorities based on estimated liabilities. The District Auditor validates the final claim from each local authority. The Accounts include estimates of amounts due from and to local authorities based on pre-audited claims submitted by local authorities. The Department recognises that the basis of the estimate is subject to uncertainty and may need adjustment in a subsequent year of account on receipt of final audited claims (see also Note 27).

d. Other programme debtors consist of balances due from other government departments and external bodies.

e. Within the total balance is an amount of £93.1 million (2004-05 £107.2 million) which relates to amounts due which, once received, will be payable to the Consolidated Fund (See also Note 27).

Intra-Government Balances

The following table analyses total debtor balances across the categories shown:

		Amounts falling due within one year		Amounts falling due after more than one year	
		2005-06	Restated 2004-05	2005-06	2004-05
	Note	£000	£000	£000	£000
Balances with other central government bodies		257,224	160,653	–	–
Balances with local authorities		179,902	194,422	–	–
Balances with NHS Trusts		15	30	–	–
Balances with public corporations and trading funds		2,035	479	–	–
Intra-government balances		439,176	355,584	–	–
Balances with bodies external to government		2,223,581	2,203,314	1,194,668	998,535
Total debtors at 31 March	25a	**2,662,757**	**2,558,898**	**1,194,668**	**998,535**

26. Cash at Bank and In Hand

	Note	2005-06 Total £000	2004-05 Total £000
Balance at 1 April		668,933	169,629
Net change in cash balances		(555,002)	499,304
Balance at 31 March		**113,931**	**668,933**
The following balances at 31 March are held at:			
Office of HM Paymaster General	26a	112,516	663,680
Commercial banks and Cash in Hand		1,415	5,253
		113,931	**668,933**

a. The Office of HM Paymaster General (OPG) provides a current account banking service.

b. Bank balances are shown net of outstanding liabilities for instruments of payment due to be encashed against the Department's bank accounts.

27. Creditors

(a) Analysis by type

	Note	31 March 2006 £000	Restated 31 March 2005 £000
Administration Creditors			
Amounts falling due within one year			
Taxation and social security		59,415	83,878
Superannuation		30,613	7,477
Trade creditors—non capital		137,917	189,733
—capital	21f	9,098	1,075
Amounts due to other Government Departments		17,342	8,702
Imputed finance lease element of on-balance sheet PFI contract		–	174
Other creditors		39,040	6,048
Accruals and deferred income		446,852	428,167
Capital Accruals	21f	77,741	1,406
Amounts issued from the Consolidated Fund for Supply but not spent at year end	30	–	552,194
CFERs due to be paid to the Consolidated Fund—received		57,065	6,048
CFERs due to be paid to the Consolidated Fund—receivable	25e	46,976	–
Excess A in A due to the Consolidated Fund	30	–	54
		922,059	**1,284,956**
Amounts falling due after more than one year			
Imputed finance lease element for on-balance sheet PFI contract	21f	59,139	57,607
Other creditors		3,510	–
		62,649	**57,607**

	Note	31 March 2006 £000	Restated 31 March 2005 £000
Programme Creditors			
Amounts falling due within one year			
Accruals			
Contributory Benefits		981,190	1,155,247
Non-Contributory Benefits		475,842	449,436
Social Fund Benefits		282	3,285
Local Authorities		27,744	28,105
European Social Fund		272,801	262,635
Encashment Control	27a	76,267	151,140
Paying Agents underfunding	27f	–	279,285
Housing Benefit and Council Tax Benefit underpayments	25c	368,732	385,686
CFERs due to be paid to the Consolidated Fund—received		66,920	14,225
CFERs due to be paid to the Consolidated Fund—receivable	25e	46,104	107,239
Excess A in A due to the Consolidated Fund		–	–
Third Party Payments	27b	31,386	38,427
Other Programme Creditors		32,846	46,660
European Social Fund & Other EU Creditors	27c	121,769	397,013
		2,501,883	**3,318,383**
Amounts falling due after more than one year			
European Social Fund	27d	286,381	282,513
		286,381	**282,513**
Total Creditors		**3,772,972**	**4,943,459**
Of which			
Due within one year		3,423,942	4,603,339
Due after one year		349,030	340,120

a. Encashment control represents outstanding liabilities for instruments of payment due to be encashed against amounts held by the Department's paying agents.

b. Third Party Payments represent amounts deducted from benefit payments and due to external bodies such as utility companies and mortgage lenders.

c. The Department makes payments from the European Social Fund upon receipt of a valid declaration from applicants stating project spend to date. Until the declaration is received from the applicant, the Department cannot accurately quantify its liabilities and related accrued income. The Accounts include an estimate of these amounts at the year end and this is based on a comparison between the agreed spend profiles provided by the applicants and payments made to date. The accruals have been adjusted to reflect the fact that over the life of a project the applicant does not claim the full value stated in the forecast. However, the Department recognises that the basis of the calculation is subject to uncertainty and may need adjustment in a subsequent year of account.

d. Balances due over one year of £286.4 million (31 March 2005 £282.5 million) consist of monies paid to DWP by the EU relating to European Social Fund. These advances are due to be paid back on finalisation of the 2000-2006 programmes, which is likely to be in 2011-2012.

e. Included within the Balance Sheet is a credit balance of £853.7 million (31 March 2005 £997.6 million) which represents the current account balance with the NIF. This is held within several ledger balances due to the nature of the relationship between the Department and the NIF.

f. The balance with paying agents has moved from a credit balance of £279.3 million at 31 March 2005 to a debit balance of £0.5 million at 31 March 2006. Following the under-funding in March 2005 there was a significant increase in funding in April 2005 to return the balances with the paying agents to a debit position. From this point the Department continued to provide funding at expected normal levels.

(b) Intra-government balances

The following table analyses total creditor balances across the categories shown:

	Note	Amounts falling due within one year 2005-06	Amounts falling due within one year Restated 2004-05	Amounts falling due after more than one year 2005-06	Amounts falling due after more than one year 2004-05
		£000	£000	£000	£000
Balances with other central government bodies		263,957	867,011	–	–
Balances with local authorities		403,432	414,179	–	–
Balances with NHS Trusts		957	33	–	–
Balances with public corporations and trading funds		8,432	4,367	–	–
Intra-government balances		676,778	1,285,590	–	–
Balances with bodies external to government		2,747,164	3,317,749	349,030	340,120
Total creditors at 31 March	27a	**3,423,942**	**4,603,339**	**349,030**	**340,120**

28. Provisions for Liabilities and Charges

	31 March 2006	Restated 31 March 2005
	£000	£000
Early Departure provision (gross)	127,441	31,831
Other Administration provisions	5,736	50,878
Programme provisions	256,737	243,707
	389,914	**326,416**

Early departure and pension commitments

	Note	Gross Provision £000	Gross Provision £000	Prepayment (Note 28a) £000	Prepayment (Note 28a) £000	Net Provision £000	Net Provision £000
Balance at 1 April 2005			31,831		(1,210)		30,621
Provided in year							
New Early retirees		112,368		–		112,368	
Uplift		792		–		792	
			113,160		–		113,160
Provisions not required written back			(1,154)		–		(1,154)
Provisions utilised in year			(17,377)		733		(16,644)
Unwinding of Discount			981		–		981
Interest received on pre-funding			–		(115)		(115)
Balance at 31 March 2006			**127,441**		**(592)**		**126,849**
Payable within one year			85,385		(413)		84,972
Payable after more than one year			42,056		(179)		41,877

a. In accordance with guidance issued by HM Treasury, the early departure provision and prepayment have not been offset but are instead shown separately. The prepayment is included within debtors (see Note 25).

Other Administration provisions

	Note	PRIME	Staff Restructuring	Other (Note 28b)	Total
		£000	£000	£000	£000
Balance at 1 April 2005		34,333	11,022	5,523	50,878
Provided in year		–	–	2,278	2,278
Provisions not required written back		(233)	(11,022)	(714)	(11,969)
Utilised in year		(34,100)	–	(1,367)	(35,467)
Unwinding of discount		–	–	16	16
Balance at 31 March 2006		–	–	**5,736**	**5,736**

Programme provisions

	Note	Pneumoconiosis Payments (Note 28c) £000	Compensation Recovery Unit (Note 28d) £000	FAS (Note 28e) £000	Total £000
Balance at 1 April 2005		19,925	9,627	214,155	243,707
Provided in year		4,453	–	–	4,453
Provisions not required written back		–	(5,050)	–	(5,050)
Utilised in year		(19,925)	–	(97)	(20,022)
Unwinding of discount		–	–	33,649	33,649
Balance at 31 March 2006		**4,453**	**4,577**	**247,707**	**256,737**
Payable within one year					13,442
Payable after more than one year					249,031

b. Other administration provisions have been made in respect of the following: dilapidations, industrial injuries, HSE Chairman's pension and onerous leases.

c. Pneumoconiosis Provision—This provision has been made in respect of compensation payments that are made under the workers' Pneumoconiosis Compensation Payments Scheme. This is intended to compensate those suffering from certain dust diseases where they are unable to claim compensation by way of civil action in the courts. Award of Industrial Injuries Disablement Benefit is a precondition for payments to all sufferers and most dependants.

d. Compensation Recoveries—The Department recognises that it is likely to collect recoveries from insurance companies in respect of ongoing compensation claims made by benefit recipients. Once insurance companies have paid they have the right to appeal within one month. If the appeal is successful recoveries are refunded to the insurance company.

e. FAS (Financial Assistance Scheme)—This scheme was announced in May 2004 and was created to provide assistance payments to individuals who face losses in their expected pensions due to their pension scheme winding up as a result of employers' insolvency. Assistance is limited to those schemes which wound up or began the process of winding up between 1 January 1997 and 5 April 2005.

Due to the nature of each of the provisions there is uncertainty over the actual amounts which will become payable.

29. Pension Liability

For the purpose of Financial Reporting Standard (FRS) 17, The Rent Service commissioned a qualified independent actuary to carry out an assessment of the Local Government Pension Scheme (LGPS) as at 31 March 2006. The results of the actuarial assessment are shown below, and relate to the proportion of the LGPS Fund attributable to The Rent Service.

Assumptions as at	**31 March 2006 % per annum**	**31 March 2005 % per annum**
Inflation	3.1%	2.9%
Salary increases	4.6%	4.4%
Pension increase	3.1%	2.9%
Discount rate	4.9%	5.4%

Assets	**Long Term Return % per Annum**	**Fund value at 31 March 2006 £000**	**Fund value at 31 March 2005 £000**
Equities	7.3	28,948	26,509
Bonds	6.0	8,746	3,630
Property	6.5	5,414	2,394
Cash	4.6	2,821	1,127
Total	**6.8**	**45,929**	**33,660**

Net pensions deficit as at	**31 March 2006**		**31 March 2005**	
	£000	**£000**	**£000**	**£000**
Estimated Employer Assets		45,929		33,660
Present Value of Scheme Liabilities	(54,487)		(44,470)	
Present Value of Unfunded Liabilities	(336)		(230)	
Total value of Liabilities		(54,823)		(44,700)
Net Pension Deficit		**(8,894)**		**(11,040)**

In accordance with the requirements of the *FReM*, the fund deficit has been included on the balance sheet.

Amounts charged to Staff Costs	**31 March 2006**	**31 March 2005**
	£000	**£000**
Current Service Costs	1,873	1,736
Past Service Costs	35	–
Curtailments and Settlements	114	583
Total Operating Charge	**2,022**	**2,319**

Amounts charged to Other Administration Costs	**31 March 2006**	**31 March 2005**
	£000	**£000**
Expected Return on Employer Assets	2,589	1,208
Interest on Pension Scheme Liabilities	(2,448)	(1,141)
Net Administration Costs	**141**	**67**

Analysis of Amount Recognised in Statement of Recognised Gains and Losses (SRGL)	**31 March 2006**	**31 March 2005**
	£000	**£000**
Actual return less expected return on pension scheme assets	5,812	923
Experience losses arising on the scheme liabilities	(46)	(253)
Changes in Financial Assumptions Underlying the Present Value of the Scheme Liabilities	(5,047)	(7,385)
	719	**(6,715)**

Movement in Deficit During the Year	**31 March 2006**	**31 March 2005**
	£000	**£000**
Deficit at beginning of the year (as restated)	(11,040)	(3,825)
Current Service Costs	(1,873)	(1,736)
Employer Contributions	3,288	1,733
Contributions in respect of Unfunded Benefits	20	19
Past Service Costs	(35)	–
Impact of settlement and curtailments	(114)	(583)
Other Finance Costs	141	67
Actuarial Gains/(Losses)	719	(6,715)
Deficit at 31 March	**(8,894)**	**(11,040)**

History of Experience Gains and Losses	**31 March 2006**	**31 March 2005**
	£000	**£000**
Difference Between the Expected and Actual Return on Assets	5,812	923
Value of Assets	45,929	33,660
Percentage of Assets	**12.7%**	**2.7%**
Experience Losses on Liabilities	(46)	(253)
Total Present Value of Liabilities	54,823	44,700
Percentage of the Total Present Value of Liabilities	**(0.1%)**	**(0.6%)**
Actuarial Gains/(Losses) Recognised in SRGL	719	(6,715)
Total Present Value of Liabilities	54,823	44,700
Percentage of the Total Present Value of Liabilities	**(1.0%)**	**(15.0%)**

30. General Fund

The General Fund represents the total assets less liabilities of each of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

	Note	2005-06 £000	2005-06 £000	2004-05 £000	2004-05 £000
Balance at 1 April			(295,312)		820,701
Net Parliamentary Funding					
Financing—Current year		62,725,255		59,060,551	
Amounts drawn not spent—deemed Supply		552,194		5,289	
			63,277,449		59,065,840
National Insurance Fund			60,940,586		59,039,460
Year end adjustment					
Supply (Creditor)/Debtor—current year	25/27	106,605		(552,194)	
Excess A in A	27	–		(54)	
			106,605		(552,248)
Net Transfer from Operating Activities					
Net Operating Cost		(123,148,288)		(118,660,400)	
CFERs repayable to Consolidated Fund		(6)		(7)	
			(123,148,294)		(118,660,407)
Non Cash Charges					
Cost of Capital		(550)		(3,463)	
Auditors' remuneration	11	1,898		1,499	
Non-cash capital additions		11,237		(1,517)	
Other government departments		284		277	
			12,869		(3,204)
Transfer from Revaluation Reserve	31a		1,787		1,796
Actuarial gain (loss) on pension	29		719		(6,715)
ESF Exchange Rate gains			(97,245)		–
Other			36		(535)
Balance at 31 March			**799,200**		**(295,312)**

31. Reserves

(a) Revaluation Reserve

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

	Note	2005-06 £000	2004-05 £000
Balance at 1 April		9,501	4,756
Arising on revaluation during the year (net)		2,469	6,541
Transferred to General Fund in respect of realised element of Revaluation Reserve	30	(1,787)	(1,796)
Balance at 31 March		**10,183**	**9,501**

(b) Government Grant Reserve

	Note	2005-06 £000	2004-05 £000
Balance at 1 April		37	54
Amortisation of Reserve	10b	(17)	(17)
Balance at 31 March		**20**	**37**

32. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of operating cost to operating cash flows

	Note	2005-06 £000	Restated 2004-05 £000
Net operating cost		(123,148,288)	(118,660,400)
Adjustments for non-cash transactions	12	447,831	443,269
Interest element of Finance Lease payments		1,707	–
Decrease in Stock		371	635
(Increase)/Decrease in Paying Agents		(279,821)	673,289
(Increase) in Debtors		(299,992)	(157,009)
Less movements in debtors relating to items not passing through the OCS		(147,273)	(63,261)
Increase/(Decrease) in Creditors		(891,202)	1,063,016
Less movements in creditors relating to items not passing through the OCS		362,335	(551,680)
Use of provisions		(72,866)	(58,801)
Net cash outflow from operating activities		**(124,027,198)**	**(117,310,942)**

(b) Analysis of capital expenditure and financial investment

	Note	2005-06 £000	2004-05 £000
Tangible fixed asset additions	21f	(295,218)	(219,354)
Intangible fixed asset additions	22	(10,983)	(26,084)
Proceeds of disposal of fixed assets	7	8,700	2,979
Net cash outflow from investing activities		**(297,501)**	**(242,459)**

(c) Analysis of capital expenditure and financial investment by Request for Resources

	Capital Expenditure £000	Loans £000	A in A £000	Net Total £000
Request for resources 1	185	–	–	185
Request for resources 2	230,969	–	(1,058)	229,911
Request for resources 3	46,738	–	–	46,738
Request for resources 4	157	–	–	157
Request for resources 5	28,152	–	(7,642)	20,510
Net movement in debtors/creditors	84,628	–	–	84,628
In year Capital additions	390,829	–	**(8,700)**	**382,129**
Prior year additions	537	–	–	537
Total 2005-06	**391,366**	–	**(8,700)**	**382,666**
Total 2004-05	**298,390**	–	**(7,518)**	**290,872**

(d) Analysis of financing

	Note	2005-06 £000	2004-05 £000
From the Consolidated Fund (Supply)—current year	30	62,725,255	59,060,551
From the National Insurance Fund	30	60,940,586	59,039,460
Advances from the Contingencies Fund		750,000	797
Repayments to the Contingencies Fund		(750,000)	(797)
Net financing		**123,665,841**	**118,100,011**

(e) Reconciliation of Net Cash Requirement to Increase/(Decrease) in cash

	Note	2005-06 £000	2004-05 £000
Net cash requirement		(63,384,054)	(58,513,646)
From the Consolidated Fund (Supply)—current year	30	62,725,255	59,060,551
Amounts due to the Consolidated Fund received and not paid	27	123,985	20,273
Amounts due to the Consolidated Fund received in prior year and paid over		(20,188)	(67,928)
Amounts due to Consolidated Fund—excess A in A	27	–	54
Increase/(decrease) in cash	26	**(555,002)**	**499,304**

33. Notes to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives

This note provides an analysis of expenditure against the five objectives that underpin the Department's aim.

(a) Administration Expenditure

Administration expenditure in the Consolidated Statement of Operating Costs by Departmental Aim and Objectives has been assigned to objectives based on RfRs. Expenditure against RfR5 has been apportioned to Objectives 1-4 based on the Administrative expenditure incurred on that objective. Expenditure on Objective 5 is based on the work undertaken to support PSA targets 9 and 10, which underpin this objective. There are no programme costs attributed to objective 5 as this objective consists purely of administration costs.

(b) Programme grants and other current expenditure have been allocated as follows:

	2005-06 £000	Restated 2004-05 £000
Objective 1 (Children)	2,609,103	3,628,050
Objective 2 (Work)	30,676,811	28,719,754
Objective 3 (Pensions)	68,938,421	66,289,648
Objective 4 (Disabled)	14,749,422	13,878,710
Objective 5 (Payment accuracy)	–	–
	116,973,757	**112,516,162**

For simplicity, most benefits have been allocated to a single objective that is matched most closely, even if the benefit expenditure could be considered attributable to more than one objective. Only Income Support, Housing/Council Tax Benefit, Severe Disablement Allowance and the Social Fund grant have been split between objectives. These payments have been apportioned across the relevant objectives based upon statistical analysis of the actual expenditure during the year.

The principal benefits allocated to the Department's objectives are therefore:

Objective 1: Income Support (Child Element)

Objective 2: Income Support, JSA, Incapacity Benefit, Housing/Council Tax Benefit, Statutory Benefits

Objective 3: Retirement Pension, Income Support, Housing/Council Tax Benefit, Winter Fuel Payment

Objective 4: Disability Living Allowance, Attendance Allowance, Care Allowance

Social Fund loans are not included in net operating cost and are not, therefore, included within the note. For information purposes, outstanding Social Fund loans of £684 million (2004-05 £679 million) can be allocated to the Department's objectives as follows:

	2005-06 £000	2004-05 £000
Objective 2	684,011	678,923
Total	**684,011**	**678,923**

(c) Capital Employed by Departmental Aim and Objectives at 31 March 2006

	2005-06	2004-05
	£000	£000
Objective 1	68,683	(73,902)
Objective 2	297,736	(80,776)
Objective 3	14,643	146,439
Objective 4	422,447	(290,080)
Objective 5	5,894	12,545
	809,403	**(285,774)**

34. Capital Commitments

	31 March 2006	31 March 2005
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	**62,104**	**34,153**

35. Commitments under Non-PFI Leases

Operating Leases

	31 March 2006		31 March 2005	
	Land & Buildings	Other	Land & Buildings	Other
	£000	£000	£000	£000
At 31 March the Department was committed to making the following payments during the next year, analysed according to the period in which the lease expires:				
Expiry within 1 year	106	879	835	1,126
Expiry after 1 year but not more than 5 years	1,905	2,339	1,704	3,758
Expiry thereafter	10,597	–	6,734	106
	12,608	**3,218**	**9,273**	**4,990**

Finance Leases

	31 March 2006	31 March 2005
	£000	£000
At 31 March the Department's obligation under finance leases was as follows:		
Rentals due within 1 year	–	174
Rentals due after 1 year but not more than 5 years	–	–
	–	**174**
Less interest element	–	–
	–	**174**

36. Commitments under PFI contracts

Off-Balance Sheet

In the period prior to 2005-06, the Department had entered into various contracts let under the Private Finance Initiative (PFI) which had been assessed under FRS 5 as being off the Department's balance sheet, the majority of risks having been transferred to the supplier. The Department has undertaken a major exercise in 2005-06 to consolidate existing contracts to deliver greater flexibility and improve both quality and the value for money delivered.

The resulting restructuring of contracts has impacted on the disclosure of some of these contracts. Where the contracts are still classed as PFI contracts, details of in year expenditure, capital values and future commitments are given below. Where the PFI contract has been subsumed into a consolidated contract which is not classified as a PFI contract, the expenditure detailed relates to the period in 2005-06 prior to the consolidated contract coming into effect. Any future commitments resulting from the consolidated contracts are detailed under Note 37 "Other financial commitments".

Transformation of EDS Services (TREDSS) contract

The following PFI contracts were subsumed into the TREDSS (Transformation of EDS Services) contract under a Standard Services Business Allocation, with an effective date of 14 August 2005.

- The Strategic Outsourcing Business Allocation (SOBA)
- Information Technology Partnership Agreement
- New Tax Credits
- Child Support Computer System (CSCS)
- Pensions Forecasting

The Department is of the opinion that TREDSS does not meet the criteria to be disclosed as a PFI contract. Expenditure relating to TREDSS and future commitments under this contract will be disclosed in the "Other financial commitments" Note.

The Strategic Outsourcing Business Allocation (SOBA) was a contract awarded to Affinity consortium (EDS, IBM and PriceWaterhouse Coopers) and was originally due to run from 1 September 2000 to 31 August 2010. The estimated capital value of the contract was £35.4 million. In August 2005, this contract was subsumed into the TREDSS contract via a Standard Services Business Allocation, therefore there are no future PFI commitments under this contract.

During 1998-99, the former Employment Service entered into a PFI agreement for the provision of Information Technology (IT) services with EDS. The contract commenced in August 1998 and was due to expire in July 2008. The estimated capital value of the contract was £217 million. As of August 2005, this contract has been renegotiated and subsumed into the TREDSS contract via a Standard Services Business Allocation. There are therefore no future PFI commitments under this contract.

The New Tax Credits (NTC) was a contract awarded to the Affinity consortium, and was due to run from December 2002 to August 2010. The estimated capital value of this contract was £11.2 million. In August 2005, this contract was subsumed into the TREDSS contract via a Standard Services Business Allocation, therefore there are no future PFI commitments under this contract.

The Department entered into a contract with EDS, on behalf of the CSA, for the design and supply of a replacement to the Child Support Computer System (CSCS). The contract, which was originally scheduled to run from 8 August 2000 to 31 August 2010, had been let under the Accord framework. The capital value of the contract was £3 million and represented the value of any hardware and software purchased and capitalised by the service provider specifically in connection with the service detailed in the contract. As of 14 August 2005, this contract was subsumed into the TREDSS contract via a Standard Services Business Allocation, therefore there are no future PFI commitments under this contract.

The Pensions Forecasting System (PFS) was a further contract awarded to the Affinity consortium. This contract was due to run from June 2002 to December 2006 and had an estimated capital value of £nil. As of 14 August 2005, this contract was subsumed into the TREDSS contract via a Standard Services Business Allocation. Therefore there are no future PFI commitments under this contract.

Integrated Communications and Network Services (ICONS) Contract

The following PFI contracts were subsumed into ICONS, a contract awarded to BT Syntegra, which came into effect on 1 October 2005.

- Wide Area Network Services
- Advanced Business Telephony

The Department is of the opinion that ICONS should not be treated as a PFI contract. Expenditure relating to ICONS and future commitments under this contract will be disclosed under "Other Financial Commitments" in the notes to the Accounts.

The Business Allocation for the provision of Wide Area Network Services (WAN) was a contract awarded to the Arcway consortium in November 2000 and was originally due to run between 1 June 2001 and 31 May 2006. The estimated capital value of the contract was £13.1 million. This contract has been subsumed into ICONS and therefore there are no future PFI commitments.

The Advanced Telephony Business Allocation was a contract awarded to the Arcway (BT Syntegra) consortium and was originally scheduled to run from April 2003 to March 2008. The estimated capital value of this contract was £87.1 million. This contract has been subsumed into ICONS and therefore there are no future PFI commitments.

Other Off-Balance Sheet Contracts

The Department has entered into a PFI Partnership Agreement under which the former Department of Social Security transferred ownership and management of its Estate to a private sector partner, in exchange for the provision of fully serviced accommodation. The contract runs from 1 April 1998 to 31 March 2018. The capital value of the contract is £455 million.

The Department has also entered into a contract with Northgate Rebus HR Ltd for the provision of payroll and HR managed services. The contract ran from 1 April 1999 to 30 June 2006, but is due to be extended to 30 June 2007. The estimated capital value is £5.8 million.

Health & Safety Executive (HSE) has signed a 30 year "design, build, finance and operate" contract with Kajima Development (Bootle Accommodation Partnerships) Ltd for the provision of fully serviced accommodation in Bootle, Merseyside. The contract runs from October 2005 to May 2035. The estimated capital value of the contract is £60 million.

HSE have streamlined the management of its IT service arrangements by placing all of its IT services with a single strategic partner who will have responsibility for delivery and end to end service. In June 2001, HSE signed a 10 year contract with a partner (Logica CMG with Computacenter as the key sub-contractor) for the provision of information and communications technology and Information Strategy (IS) service across all HSE sites and to all HSE users. The estimated capital value of the contract is £23 million.

On-Balance Sheet

With effect from 28 October 2004, Health and Safety Laboratories (HSL) took occupation of serviced accommodation for laboratory and support functions provided under a 32 years and 29 weeks term "design, build, finance and operate" contract with ICB Ltd. The balance of the risks and rewards of ownership of the property, situated at Harpur Hill, Buxton, is borne by HSL and hence the buildings and furniture provided are included in HSL's balance sheet as fixed assets. The liability to pay for these assets is in substance a finance lease obligation (see Note 27). Contractual payments comprise an imputed finance lease charge and a service charge.

As part of the PFI contract, HSL handed over all of the land and buildings at the Sheffield site to ICB Ltd, and a prepayment for their fair value of £4.6 million, as determined by the contract, is recognised in the accounts and amortised evenly over the life of the PFI contract.

The Accounts are prepared on the basis that the economic effect of granting a lease at Buxton to ICB Ltd is not material because the difference between the existing use value of the freehold land at Buxton as at 31 March 2006 and the value of the reversionary interest in the freehold land as at October 2034, is not significant, given the location of, and potential uses for, the Buxton site.

Imputed finance lease obligations under on-balance sheet PFI contracts

	2006-07
	£000
Rentals due within 1 year	4,673
Rentals due after one year but within 5 years	20,028
Rentals due thereafter	177,892
	202,593
Less interest element	(143,454)
	59,139

Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service elements of on-balance sheet PFI transactions was £756.4million (2004-05 £944.6 million) (see also Note 9), and the payments to which the Department is committed next year, analysed by the period during which the commitment expires, are as follows:

	2006-07	2005-06
	£000	£000
Expiry within 1 year	1,035	42,889
Expiry after 1 year but not more than 5 years	–	440,739
Expiry thereafter	570,605	735,569
	571,640	**1,219,197**

37. Other financial commitments

The Department has entered into the following non-cancellable contracts (which are not leases or PFI contracts).

TREDSS

TREDSS stands for the Transformation of EDS Services and is a renegotiation, via a Standard Services Business Allocation (SSBA), of the ACCORD, ITPA and SOBA contracts which the Department previously had with EDS. The Department is of the opinion that TREDSS does not meet the criteria to be disclosed as a PFI contract. Total expenditure on this contract in 2005-06 was £383.2 million.

ICONS

On 1 October 2005, the Department consolidated two existing contracts (Advanced Telephony Business Allocation and Wide Area Network Services) with BT Syntegra into ICONS. The Department is of the opinion that the contract does not constitute a PFI arrangement. Total expenditure on this contract in 2005-06 was £115.8 million.

Liberata

The Department has entered a non-cancellable contract with Liberata UK Ltd for payment processing services. The contract is due to expire in March 2007. Total expenditure on this contract in 2005-06 was £3.5 million.

Future Commitments

At 31 March 2006, the payments to which the Department is committed, analysed by the period during which the contract expires, are as follows:

	2006-07	2005-06
	£000	£000
Expiry within 1 year	4,000	47,990
Expiry after 1 year but not more than 5 years	958,064	39,368
	962,064	**87,358**

38. Financial Instruments

FRS 13, *Derivatives and other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the Department is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Department has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

Liquidity Risk

The Department's net revenue resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. The Department is not, therefore, exposed to significant liquidity risks.

Foreign Currency Risk

Due to the time delay between preparation of claims and receipt of funds in respect of the European Social Fund, we are exposed to the movement in the Euro/Sterling exchange rate. Other than in this situation, the Department's exposure to foreign currency risk is not significant.

Interest Rate Risk

All of the Department's financial assets and liabilities carry nil or fixed rates of interest and the Department is not therefore exposed to significant interest rate risk. The interest profile of the Department's financial liabilities and asset has therefore not been disclosed separately.

Fair Values

The book values of the Department's financial assets and liabilities at 31 March 2006 are not materially different from their fair values. They have accordingly not been shown separately.

39. Contingent Liabilities disclosed under FRS 12

Child Support Agency debt

The Agency operates a discretionary scheme for certain qualifying cases whereby a lump sum payment of arrears is made to a parent with care before that money is collected by the Agency from the non-resident parent. Entitlement to such a payment is neither automatic nor referred to in legislation. These payments are included in the accounts as "Other" within Note 9 and in 2005-06 £1.247 million (2004-05 restated, £0.975 million) was charged. At 31 March 2006 a number of cases existed which may subsequently qualify under this scheme, giving rise to a potential liability. The amount of this liability is dependant on a number of factors, the outcome of which for each case is unable to be determined. For this reason no provision has been made in the accounts. Any future potential liability is mitigated by the fact that this scheme can be withdrawn without notice.

Remploy Limited

The Secretary of State for Work and Pensions has given formal guarantee in respect of Remploy Limited, an Executive Non-Departmental Public Body. In the event of Remploy Limited becoming insolvent, the Secretary of State has agreed to pay Remploy Limited a sum equal to any and all of its remaining debts ie the excess of its liabilities over and above the proceeds from realisation of its assets. In addition to this guarantee over Remploy's net liabilities the Department also guarantees to cover any shortfall in its pension provision.

Better Government for Older People (BGOP)

This is an initiative which is funded by several consortium partners with the Department providing the largest proportion of funds by way of Grant-in-Aid. Since BGOP has no legal identity, the usual "Financial Memorandum" is replaced by a "Consortium Agreement" that has Treasury approval. In addition to the funding which the Department provides, we have also agreed to indemnify Help the Aged, the host organisation, against any losses arising from BGOP activity to the sum of £1 million in any one year and, as the "Consortium Agreement" year runs from October to September, £2 million in totality.

ESF Repayments

The Department has a potential liability in respect of ineligible claims for ESF programmes that operated during 1994-99. The Department estimates that it is highly likely that we will be unable to claim from the European Commission £14.4 million already paid to contractors and this amount has been provided for within these accounts. The Department is negotiating a final settlement with the European Commission and there is the potential that a further liability could arise, however this figure cannot be estimated with any certainty at this time.

Employment Tribunals

HSE is currently defending two equal-pay cases. In October 2003, HSE successfully appealed at an Employment Appeal Tribunal against an Employment Tribunal decision handed down in July 2002. That appeal was subject to cross appeal and in October 2004 the Court of Appeal referred a point of law to the European Court of Justice (ECJ). There was an oral hearing in front of the ECJ in March 2006 and the Advocate General's opinion was received in May 2006. This opinion will be used to assist the ECJ in reaching a decision. The decision of the ECJ is not expected until the end of the year.

Vaccine Damage Payments

Important changes to the Vaccine Damage Payments Scheme have been introduced. The level of disablement that is defined as severe has been reduced from 80% to 60% and the period of time during which a claim can be made has been extended.

These changes mean that some people who have been disallowed in the past may be able to make another claim under these new rules. These further claims had to be received by 16 June 2005. All of the 389 claims received by this deadline were rejected. As they carry appeal rights there is no time limit for requesting a Vaccine Damage Appeal and it can be 10 years or more before they decide to go ahead. It is not currently possible to estimate the value or success of these claims and so no provision has been made in these accounts.

Deficiency Notices

Deficiency notices were not sent out for the tax years 1996-97 to 2001-02. Her Majesty's Revenue and Customs (formerly Inland Revenue) has contacted customers of working age. Between September 2004 and September 2005, The Pension Service contacted 414,427 pensioner customers affected by the suspension of deficiency notices. Customers who reached State Pension age between 6 April 1998 and 24 October 2004 (inclusive) were invited to consider paying voluntary contributions to provide them with the opportunity to improve their basic State Pension or qualify for one for the first time.

As at March 2006, State Pension arrears of £76.2 million had been paid out in relation to the pensioner exercise, plus interest of £3.0 million. The administrative cost of the project to this date has been £31.3 million.

The estimated further cost of State Pension arrears to be paid during the remainder of the exercise is £8.5 million plus interest of £0.6 million, with a further administrative cost estimated at around £1.9 million, contingent upon contact from customers.

The Rent Service

There are a number of legal claims against The Rent Service, the outcome of which cannot at present be stated with certainty. None of these claims have been settled. A cost of £55,000 has been estimated based on previous experience of similar claims. A cost of £40,000 has also been estimated for three pending Employment Tribunal cases. These costs have not been provided for in these financial statements.

Health & Safety Laboratories

Claims have been received by HSL and a main contractor engaged by HSL, alleging that injuries were incurred by an employee of a subcontractor engaged by the main contractor to work on HSL's site at Buxton. The matter is currently the subject of a criminal investigation, and HSL is awaiting further information to enable it to assess its position with regard to any potential liability.

40. Contingent Liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability purposes

Quantifiable

The Department has entered into the following quantifiable contingent liabilities by offering guarantees or indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	1 April 2005	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2006	Amount reported to Parliament by Departmental Minute
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Intention to Proceed	1,315	151	0	(1,449)	17	0
Letters of Comfort	27,378	23,828	0	(46,673)	4,533	0
Other	5,000	0	0	0	5,000	0
	33,693	**23,979**	**0**	**(48,122)**	**9,550**	**0**

Explanation of movements

The items comprising these figures are reported as Contingent Liabilities for internal reporting purposes only and refer to instances where commercial cover has been provided to a supplier prior to contract signature. Although quantifiable, they have arisen within the normal course of business; the single exception to this is the £5.0 million amount included as Other, which was also reported last year. It refers to an estimate of liability should potential legal proceedings take place with a supplier following a dispute with the former Employment Services Department. However, the likelihood of this liability actually arising is considered remote and has not been disclosed under FRS 12.

Prior to contract signature, a common instrument used by the Department to provide commercial cover to a supplier for work to proceed is a Letter Of Comfort (LOC). When the contract is subsequently signed, the LOC is superseded by the contract and the LOC lapses. This was the case with all such LOCs that ended during 2005-06, which have been categorised above as Obligations expired in year. Had contracts not been signed, the Department would have been required to pay the supplier concerned under the appropriate LOC, in which case the liability would be said to have crystallised. This did not occur in any instance.

Similarly, an Intention To Proceed (ITP) is a promise to pay the supplier, but only if the services concerned are not actually procured and ordered. When the procurement is complete, the ITP lapses and the supplier submits an invoice for the appropriate service. The ITPs showing under Obligations expired in year all lapsed following the Department's purchase of the services concerned.

There were no liabilities reported to Parliament during the course of the year as all contingent liabilities arose during the normal course of business and hence there was no requirement for these to be reported.

41. Losses and Special payments

Non-Contributory & Jobseekers Allowance (Contributory) Benefits

	£000
Losses Statement	
Total 281,442 cases, to the value of £99.671 million.	
Details	
General Losses	
General losses are cash losses due to irrecoverable overpayments of benefits recorded during the year. In Income Support and Jobseeker's Allowance cases, where the claimant's good faith was not in doubt and where recovery action was not appropriate, the recorded overpayment has been restricted to the net amount overpaid since the beginning of the financial year preceding that in which the overpayment was discovered. These losses are identified by normal working practices or by various measures introduced under the "performance management regime".	25,766
Write-off of Debt Through Easement	
The Department's overpayment initiative, agreed with Treasury, enables the write-off of non-recoverable debt using estimating procedures until 31 March 2006. The aim is to re-target resources to more cost effective recovery. During 2005-06 the package dealt with 190,824 cases involving overpayments of Vote benefits writing off £67.805 million in total. These overpayments would not have been recoverable under Social Security legislation. They were caused primarily by official error.	67,805
Erroneous Processing of Disability Living Allowance Payment Files	
During February 2006 a Disability Living Allowance Computer System file was processed twice in error, resulting in 7,800 customers receiving duplicate payments. Of the £1,179,989 overpaid, 6,391 customers had voluntarily repaid approximately £972,779 at 31 March 2006. Recovery action is still ongoing in 2006-07 and until that is concluded the exact loss cannot be quantified. The Department is currently investigating the commercial contract to establish the extent of any liability for reimbursement.	207
Duplicate Christmas Bonus	
Current information indicates that overpayments of Christmas Bonus of approximately £167,000 have been made in 2005-06, compared with £172,000 in 2004-05. The duplications occurred because, although a customer can only qualify for one Christmas Bonus payment each year, more than one benefit system may generate that payment.	
The approach to reducing these duplicate payments is in two parts. Firstly, an enhancement was made to the Programme Accounting Computer System (PACS) to enable identification of duplicate payments of Christmas Bonus that have occurred during the year. Secondly, development on future computer systems should prevent these duplicates, prior to issue of payments. The Customer Information System, is expected to assist in eradicating this type of duplicate payment to customers.	167
Internal Fraud	
Investigations into suspected frauds or abuse by staff are conducted by a dedicated national team within the Department's Risk Assurance Division.	
A total of 170 investigations into internal fraud or abuse that involved a loss to public funds were completed in 2005-06. The total loss identified in these cases was £193,030. Recovery action in respect of losses is taken at a local level, and recoveries are not recorded separately for these cases. Four of these cases involved losses of over £20,000:	193

	£000
Organised and Serious Fraud	
Investigations into Serious and Organised Fraud are done by FIS (Organised) part of the Fraud Investigation Service.	
A total loss of £1,938,641 was incurred on cases over £100k closed in 2005-06. These investigations involve frauds using false/hijacked identities to claim benefits and the theft and manipulation of instruments of payment. The persons committing the frauds are criminals usually working in a criminal network rather than ordinary benefit claimants.	
Of the 13 cases which were concluded in the 2005-06 year where the amount was in excess of £100k the two largest in excess of £250k are detailed briefly below:	
Operation Valday—A Post Office Internal Fraud involving the Sub Postmaster manipulating his payment records and over claiming from the DWP with a total loss of £286,101. There was no specific benefit involved. The sum of £257,000 has been repaid to DWP by the Post Office. The individual was sentenced to two years imprisonment.	
Operation Achel—A Post Office Internal Fraud involving the Sub Postmaster stealing and manipulating order books with a total loss of £487,967. Because of the manipulations there is no way of allocating the losses to specific benefits. The individual was sentenced to three years imprisonment. The Department is seeking to recover the money through the courts and the Proceeds of Crime Act.	
Wherever possible we seek to recover losses through either the Departmental systems, the Courts or increasingly using our Financial Investigation Unit to recover monies through the Proceeds of Crime Act. Overall 755 people were prosecuted successfully and 70% received custodial sentences.	1,938
Contractor Fraud	
Investigations into suspected frauds or abuse by contractors are conducted by a dedicated national team within the Department's Risk Assurance Division.	
A total of 153 investigations were completed during 2005-06 involving frauds or abuse by contractors and their staff. The total loss involved in these cases was £789,032. Of this amount, £570,205 has been identified as recoverable. These investigations cover a wide range of contracted services, including the delivery of training and development services under New Deal initiatives. Abuses range from not delivering the contracted level or quality of service, to falsification of records in order to inflate or support payment requests.	219
Income Support Computer System fault on conversion to Direct Payment	
Overpayments of Income Support and Pension Credit have occurred where a customer's method of payment was automatically converted from Order Book to Direct Payment, and where cases held a previous Automated Credit Transfer method of payment. The fault was generated because the system incorrectly defaulted back to a previous method of payment and duplicated benefit already paid. Although the fault, which creates these erroneous payments, had been known for some time the number and value had been insignificant. The termination of Order Books and the migration to Direct Payments has significantly increased the number of these overpayments. To identify the scope of the problem weekly scans of the Income Support system commenced in January 2005. The scans identified 2,450 cases where an overpayment was made totalling approximately £3.375 million. Processes were put in place to ensure identified overpayments from the scans were not issued. Overpayments linked to this system fault ceased on the termination of payment by Order Book.	
Ministerial agreement was sought, and agreed, July 2006, to write off the loss on cost effective grounds.	3,375

	£000
Special Payments	

Total 5,179 cases, to the value of £9.721 million

Details

Reduced Earnings Allowance/Retirement Allowance

Industrial Injuries Reduced Earnings Allowance (REA) is replaced on retirement with Retirement Allowance (RA). However, where a person does not claim REA until pension age is reached and has given up employment he cannot be transferred to RA and remains in receipt of REA. This is in accordance with the law but contrary to the policy intent. Ministers are aware of the deficiency, which is in primary legislation. An amendment will be considered should a suitable legislative vehicle become available.

The 2004-05 Resource Account was noted to the effect that unintended expenditure has been incurred since 1996 on REA. In 2005-06, unintended expenditure was again incurred and is estimated to be in the region of £9.5 million representing around 4,000-5,000 awards. 9,500

Industrial Injuries Disablement Benefit—change of rules on diagnosis of pneumoconiosis

In 1993 a Social Security Commissioner (CSI/78/93 reported as R(I) 1/96) ruled that the Department had been applying the law incorrectly in claims for Industrial Injuries Disablement Benefit (IIDB) in respect of pneumoconiosis. This meant that some cases had been disallowed when benefit should have been awarded. This decision raised particularly difficult questions of law and medicine that required detailed consideration before the Department was in a position to respond.

In December 2001 the Department mounted a publicity campaign to identify people who might be affected. Most of the customers that benefit from the Commissioner's decision are found to be entitled to arrears from the date of the decision, 25 August 1994.

The Department continued to pay arrears throughout 2005-06, either in response to a claim, or where an underpayment was identified on review. There were 179 such awards in the 2005-06 year, generating an additional cost of £221,094 in Industrial Injuries Disablement Benefit. 221

Other Notes

Overpayments of Income Support and Jobseekers Allowance Child Premium arising from Child Tax Credit

If a customer is receiving Income Support or Jobseeker Allowance Child Premium, and then either the customer or known partner is transferred to Child Tax Credit, any Child Premiums should be removed, thereby reducing the amount of Income Support paid.

An interface was introduced to alert the Income Support Computer System when the customer or known partner started to claim Child Tax Credit. During 2004-05 scans have been conducted of the Income Support (IS) and Jobseeker Allowance (JSA) systems to identify cases where the removal of the Child Support Premiums had not been carried out, resulting in overpayments of IS and JSA.

The Department has identified 19,084 cases where IS and JSA Child Premium has been overpaid due to failure to take payment of Child Tax Credit into account. The total potential loss to the Department is estimated at £40.1 million.

A final scan was run in May 2006. Caseload volumes from this scan are not yet available. Cases identified at this final scan will be issued to staff to take the appropriate action to end the IS and JSA.

Requests for repayment, or write off will be issued once Ministers have agreed the process for handling. Until the decision on repayments has been made by Ministers, no actual loss to the Department has occurred, therefore a note is included in the accounts but no actual loss can be recorded.

Payments to incorrect Post Office Card Accounts

Benefit expenditure has, on occasions, been paid into incorrect Post Office Card Accounts (POCA); this is due to the incorrect information being stored on the Heritage Benefit Systems. This occurs when bank account details are incorrectly entered onto Departmental payment systems. Where payments are made to Bank/Building Societies the payments are rejected and returned to the Department because they failed the "modulus checking system", operated by all of the major financial institutions including POCA. This checks that the sort code and account number are the same as the information received. However, in relation to payments into card accounts the modulus checking is less robust.

In 2003-04 and 2004-05 payments totalling £5.3 million were made to incorrect card accounts. Requests by the Department have resulted in approximately £690k being returned. In this financial year there have been 11,691 cases of incorrect POCA payments valued at £1,635,876 and to date £407,869 has been recovered.

These payments are classed as official error—the recovery process for which is currently under review by Ministers. Requests for repayment, or write off, will be issued once Ministers have agreed the process for handling.

Until the decision on repayment has been made by Ministers, no actual loss to the Department has occurred, therefore a note is included in the accounts but no actual loss has been recorded.

Overpayments of Pension Credit when Retirement Pension in payment but not taken into account correctly

The Restatement of Deficiency Notices Project's objective was to contact customers to advise them that they had either one year or a number of year's (since 1997) deficient National Insurance Contributions. As a result of the Reinstatement of Deficiency Notices Project it was noted that there were a number of cases where Retirement Pension was not taken into account correctly in the Pension Credit award resulting in an overpayment. To date the exact amounts in overpayments, and the precise number of cases, is unknown but it is expected that the number of cases will be well below an original estimate of up to 10,000 cases. Some of these cases were corrected during the 2006 uprating exercise, or as part of a case review. Further work is to be undertaken to identify the precise number and value of overpayments and full details will be provided in the 2006-07 Account.

Retirement Pension entitlement not taken into account for Pension Credit customers

In addition to the above, the Reinstatement of Deficiency Notices Project identified a further estimated 53,000 Pension Credit cases where an entitlement to Retirement Pension was not correctly included in the Pension Credit award ie the entitlement to Retirement Pension has not been claimed. There is no resulting overpayment, but Pension Credit has been paid instead of Retirement Pension.

A special exercise is to be set up to invite claims for Retirement Pension and to oversee the correction of Pension Credit cases. A scan is to be undertaken in Autumn 2006 to ensure all cases have been identified and corrected. Records are to be maintained to identify what has been paid as Pension Credit and what should have been paid as Retirement Pension, and full details will be provided in the 2006-07 Account. Enhancements are to be introduced to the IT system in October 2006 to enable correct processing.

	£000

Housing and Related Benefits

Losses Statement

	£000
Total 18 Local Authorities to the value of £16.893 million.	
The Secretary of State, in accordance with the provisions of section 140C(3) of the Social Security Administration Act 1992, may exercise his discretion in deciding as to whether, and if so, how much of Housing Benefit and Council Tax Benefit (HB/CTB) overpaid subsidies to recover from local authorities. In the exercise of his discretion, the Secretary of State has, in relation to 18 local authorities, decided to waive recovery of overpaid HB/CTB subsidy, estimated at £16,893,460, in respect of 1999-00, 2001-02, 2002-03 and 2003-04 subsidy claims.	16,893

Special Payments

There have been a number of Independent Living (Extension) Fund customers who have been paid in breach of trust from 1993 to 2002 as they did not meet the eligibility criteria set out in the Trust Deed, albeit that payments were made in furtherance of the policy intention. The overpayment has been estimated to be £55 million (An estimate of £13.5 million was made in 2004-05 with the proviso that the figure was subject to change). Agreement is being sought for write-off on the grounds that the payments followed Ministerial policy even though they were made without the proper authority and recovery would probably be impossible as affected customers are all severely disabled and in need of financial assistance to live independently.

Social Fund

Losses Statement

	£000
Total 67,568 cases, to the value of £44.864 million	
Recoverable loans impracticable to pursue (25,742 cases)	2,905
Claims for recoverable Funeral expenses payments abandoned due to insufficient estate (32,716 cases)	32,775
Claims for recoverable Funeral expenses abandoned because they are impossible/unreasonable to pursue (8,784 cases)	9,096
Losses due to irrecoverable overpayments (non loans) recorded during the year (326 cases)	88

Special Payments

No Special Payments occurred this year.

Extra Statutory Payments

No Extra Statutory Payments occurred this year.

National Insurance Fund

Losses Statement

Details of cases over £250,000

Organised and Serious Fraud

Investigations into Organised and Serious Fraud are carried out by FIS (Organised), part of the Fraud Investigation Service.

A total loss of £1,938,641.49 was incurred on cases over £100K closed in 2005-06. These are reported in the Losses statement on Page 88.

£000

These investigations involve frauds using false/hijacked identities to claim benefits and the theft and manipulation of instruments of payment. The persons committing the frauds are criminals usually working in a criminal network rather than ordinary benefit claimants.

Of the 13 cases which were concluded in the 2005-06 year where the amount was in excess of **£100K**, two were in excess of **£250K**. The two cases in excess of £250K are detailed briefly below. Owing to the nature of the Fraud involved it is not possible to separate out the elements relating to Vote funds and National Insurance Funds, hence the total has been included in the Losses on Page 99 and as a note only here.

1. **Operation Valday**—A Post Office Internal Fraud involving the Sub Postmaster manipulating his payment records and over claiming from the DWP with a total loss of **£286,101**. There was no specific benefit involved. The sum of **£257,000** has been repaid to DWP by the Post Office. The individual was sentenced to two years imprisonment.

2. **Operation Achel**—A Post Office Internal Fraud involving the Sub Postmaster stealing and manipulating order books with a total loss of **£487,967**. Because of the manipulations there is no way of allocating the losses to specific benefits. The individual was sentenced to three year's imprisonment. The Department is seeking to recover the money through the courts and the Proceeds of Crime Act.

Wherever possible we seek to recover losses through either the Departmental systems, the Courts or increasingly using our Financial Investigation Unit to recover monies through the Proceeds of Crime Act. Overall **755** people were prosecuted successfully and **70%** received custodial sentences.

NIF—Special Payments

No Special Payments occurred this year.

Administration

Losses Statement

Total 35,007 cases, to the value of £45.733 million

Details of cases over £250,000

Cash Losses

Non-salary related losses reported by the Child Support Agency totalled 2,714 cases to the value of £507,402. 507

Cash losses of pay, allowances and superannuation reported by the Jobcentre Plus Agency totalled 4,083 cases to the value of £502,513. 503

Cash losses of overpayments of benefits, grants and subsidies reported by the Jobcentre Plus Agency totalled 23,596 cases to the value of £1,405,237. 1,405

A provision of £13,705,001 was included in the 2004-05 accounts in respect of the European Social Fund. This related to payments made against ESF programmes where recovery was not expected from the European Commission. In the 2005-06 accounts it has been necessary to increase this provision by a further £11,576,414 to £25,281,415. Of this revised figure, £10,809,118 has been provided against debts where recovery of overpayments to providers is proving problematic and the remaining £14,472,297 is a provision against EC debts. Losses of £30,051,959 were written off during the year. Of this figure, £26,641,846 relates to non-recoverable EC debts and the remaining £3,410,113 represents overpayment debts where recovery action had proved fruitless. 30,052

Administration Losses	£000
Stores Losses	
Vehicle related losses reported by the Department totalled 868 cases to the value of £595,755. This was made up of 697 cases totalling £487,115 where DWP drivers of official vehicles were at fault and did not involve any third parties, with the remaining 171 cases totalling £108,639 where DWP drivers were at fault and a third party was involved.	596
Special Payments	
Total 37,337 cases, to the value of £19.580 million	
Details of cases over £250,00	
Special Payments to staff and members of the public made by the Department totalled 655 cases to the value of £1,786,243.	1,786
Special Payments to members of the public (Customer cases) made by the Department totalled 36,322 cases to the value of £15,163,088.	15,163
Special Payments to members of the public (Customer cases) made by the Corporate Centre totalled 63 cases to the value of £2,343,965. Included in this figure is a payment of £2,310,502 made to Pensioners who did not receive the full rate of Retirement Pension, and who should have been invited to top up their National Insurance Contributions. On the introduction of the National Insurance Record System (NIRS2), this invitation was omitted and a project was set up to rectify this. This resulted in the payments being made to the Pensioners for the loss of interest on their Retirement Pension. This figure is in addition to the sum of £589,635 reported in the 2004-05 Accounts.	2,344
Included in the above are:	
1,595 ex-gratia payments totalling £393,960 authorised to customers in respect of Extra Amount for Carers payable to a Pension Credit customer/partner where they receive or have an underlying entitlement to Carer's Allowance.	394
12,621 ex-gratia payments totalling £5,406,450 authorised to customers over State Pension age with severe disabilities whose potential savings credit element in Pension Credit was adversely affected if they remained on Severe Disablement Allowance.	5,406
Following a DWP wide Reinstatement of Deficiency Notices Project Exercise, special payments were authorised totalling £2,330,691. This related to customers who reached State Pension age between 6 April 1998 and 24 October 2004, and were not receiving full pension in their own right, or not receiving pension, and who had a deficient National Insurance contribution record in any of the years between 1996-97 and 2001-02.	2,331
Other Notes	
Recorded in this account are losses of £2,820,330 which arose as a result of claims waived on Other Government Departments to repay monies owed to DWP for their minor occupancy of DWP accommodation under PRIME (Private Sector Resource Initiative for the Management of the Estate). There has been no overall loss to the Exchequer.	2,820

42. Related Party Transactions

The Department for Work and Pensions is the parent of The Pension Service, Jobcentre Plus, The Rent Service, Disability and Carers Service, the Child Support Agency, the Appeals Service, the Pensions Regulator, the Pensions Compensation Board, the Disability Rights Commission, the Health and Safety Commission and Executive, Remploy Ltd, the Independent Review Service for the Social Fund, the Office of the Pensions Ombudsman and the Pension Protection Fund. The Department is also responsible for the Social Fund and the European Social Fund. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department has had a number of transactions with other Government Departments, other Central Government Bodies, Local Authorities and some charitable organisations. Most of these transactions have been with the Office of Paymaster General (OPG), Post Office Counters Limited, the British Broadcasting Corporation, the Department of Health, the Northern Ireland Social Security Agency, the Ministry of Defence, HM Revenue and Customs, the Treasury Solicitor and the Department for Education and Skills.

No Minister, Board member, key manager or other related party has undertaken any material transactions with the Department during the year.

43. Third-Party Assets

The CSA Client Funds account is accounted for on a receipts and payments basis. These are not departmental assets and are not included in the accounts. The assets held at the balance sheet date to which it was practical to ascribe monetary values comprised monetary assets, such as bank balances and monies on deposit, and listed securities. The movement of balances on the Client Funds account through the year was as follows:

	2005-06	2004-05
	£000	£000
Receipts	608,931	602,873
Bank Interest	1,036	950
Total receipts	609,967	603,823
Less payments to:		
Persons with care	502,332	471,758
Secretary of State	109,283	119,199
Non-resident parents/employers	7,994	8,563
The Agency (CSA fees and court orders)	2	3
Total payments	619,611	599,523
Net (payments)/receipts	(9,644)	4,300
Balance as at 1 April	23,799	19,499
Balance as at 31 March	**14,155**	**23,799**

Statement of Balances at 31 March

	31 March 2006	31 March 2005
	£000	£000
Funds awaiting clearance	7,739	9,610
Cleared funds awaiting distribution	6,416	14,189
Balance in bank account	**14,155**	**23,799**

44. Payment accuracy

The Department aims to pay the right money to the right person at the right time. It seeks to provide safeguards against fraud and abuse and ensure that its systems detect and recover overpayments quickly and accurately. The Department's security strategy has the aim of addressing security and control in all relevant areas to achieve a demonstrable and sustained reduction in the level of fraud and error and in this respect the DWP is in the forefront of social security organisations worldwide in its attempts to estimate a monetary value of fraud and error.

The Department's method of estimating benefit fraud and error can be broadly split into three categories:

- Estimated through continuous sampling exercises (Income Support (IS)/Jobseekers Allowance (JSA)/Pension Credit (PC)/Housing Benefit (HB)).
- Estimated through one-off snapshot exercises (eg Disability Living Allowance (DLA) and support by annual review of official error eg State Pension (SP)/Incapacity Benefit (IB)).
- No reliable figure for fraud and error previously estimated (eg Council Tax Benefit (CTB)/ Attendance Allowance (AA)).

These are combined to produce overall estimates.

The Department estimates that there was approximately £2.7 billion overpaid through fraud and error in social security benefit payments in 2005-06. This represents approximately 2.3% of total benefit payments, of which £0.8 billion (0.7%) is fraud, £1.0 billion (0.9%) is customer error and £0.9 billion (0.8%) is official error.

The estimate reported in the 2004-05 account was that there was approximately £2.6 billion overpaid through fraud and error (approximately 2.3% of total benefit payments). This change from 2004-05 to 2005-06 cannot be considered a significant increase and is partially due to the estimating methodology. Benefit expenditure has increased between the two years, explaining much of the increase. Changes in the individual benefit estimates that make up the total are subject to sampling error and are not all statistically significant.

Although the estimates are quoted to the nearest £0.1 billion, there are considerable uncertainties around the total estimates (eg as it is a combination of different sampling exercises each with statistical uncertainties). These estimates have 95% confidence intervals of roughly between +/− £0.2 billion and +/− £0.3 billion.

An analysis of these sums between benefits is set out in the following tables.

Estimates of benefit overpayments due to fraud and error in 2005-06

	Expend 2005-06	Fraud & Error		Fraud		Customer Error		Official Error		Period of exercise[1]
Regularly Reviewed										
Income Support	£9.1bn	£490m	5.3%	£210m	2.3%	£100m	1.1%	£170m	1.9%	Apr 04-Mar 05
Jobseeker's Allowance	£2.3bn	£140m	6.0%	£50m	2.2%	£30m	1.5%	£50m	2.3%	Apr 04-Mar 05
Pension Credit	£6.4bn	£300m	4.6%	£70m	1.0%	£90m	1.5%	£140m	2.1%	Apr 04-Mar 05
Housing Benefit	£14.0bn	£760m	5.4%	£170m	1.2%	£430m	3.1%	£160m	1.1%	Oct 04-Sep 05
Periodically Reviewed										
Disability Living Allowance[2]	£8.6bn	£160m	1.9%	£40m	0.5%	£50m	0.6%	£60m	0.7%	Apr 04-Mar 05
State Pension[3]	£51.3bn	£70m	0.1%	£0m	0.0%	£40m	0.1%	£30m	0.0%	Apr 05-Mar 06
Carer's Allowance	£1.1bn	£60m	5.5%	£40m	3.9%	£10m	1.0%	£10m	0.6%	Apr 96-Mar 97
Incapacity Benefit[4]	£6.6bn	£120m	1.9%	£10m	0.1%	£20m	0.2%	£100m	1.5%	Apr 00-Mar 01
Instrument of Payment fraud		£20m		£20m						Apr 05-Mar 06
Interdependencies[5]		£30m		£10m		£10m		£10m		Apr 04-Mar 05
Unreviewed										
Unreviewed (ex CTB)[6]	£12.4bn	£340m	2.7%	£110m	0.9%	£110m	0.9%	£110m	0.9%	Apr 05-Mar 06
Council Tax Benefit	£3.8bn	£210m	5.4%	£50m	1.2%	£120m	3.1%	£40m	1.1%	Oct 04-Sep 05
Total[2, 8, 9]	£115.8bn	**£2.7bn**	2.3%	**£0.8bn**	0.7%	**£1.0bn**	0.9%	**£0.9bn**	0.8%	

Estimates of benefit overpayments due to fraud and error in 2004-05

	Expend 2004-05	Fraud & Error		Fraud		Customer Error		Official Error		Period of exercise[1]
Regularly Reviewed										
Income Support	£10.0bn	£560m	5.6%	£250m	2.5%	£100m	1.0%	£210m	2.1%	Oct 03-Sep 04
Jobseeker's Allowance	£2.2bn	£180m	8.2%	£70m	3.0%	£40m	1.7%	£80m	3.5%	Oct 03-Sep 04
Pension Credit	£6.1bn	£290m	4.9%	£60m	1.0%	£100m	1.7%	£130m	2.2%	Oct 03-Sep 04
Housing Benefit	£13.1bn	£640m	4.9%	£210m	1.6%	£280m	2.2%	£140m	1.1%	Oct 03-Sep 04
Periodically Reviewed										
Disability Living Allowance[2]	£8.1bn	£150m	1.9%	£40m	0.5%	£50m	0.6%	£60m	0.7%	Apr 04-Mar 05
State Pension[4]	£48.8bn	£60m	0.1%	£30m	0.1%	£0m	0.0%	£30m	0.1%	Apr 95-Mar 96
Carer's Allowance	£1.1bn	£60m	5.5%	£40m	3.9%	£10m	1.0%	£10m	0.6%	Apr 96-Mar 97
Incapacity Benefit[4]	£6.7bn	£80m	1.2%	£10m	0.1%	£20m	0.2%	£50m	0.8%	Apr 00-Mar 01
Instrument of Payment fraud		£40m		£40m						Apr 04-Mar 05
Interdependencies[5]		£30m		£10m		£10m		£10m		Apr 04-Mar 05
Unreviewed										
Unreviewed (ex CTB)[6]	£11.4bn	£310m	2.7%	£100m	0.9%	£100m	0.9%	£100m	0.9%	Apr 04-Mar 05
Council Tax Benefit[7]	£3.6bn	£180m	4.9%	£60m	1.6%	£80m	2.2%	£40m	1.1%	Oct 03-Sep 04
Total[2, 8, 9]	£110.9bn	**£2.6bn**	2.3%	**£0.9bn**	0.8%	**£0.8bn**	0.7%	**£0.9bn**	0.8%	

Notes:

The expenditure covered includes some items which are paid for but not administered directly by DWP. Future estimates will consider our liabilities in these areas in more detail. Figures expressed as percentages (%) give the overpayments as a percentage of the benefit paid out in the year.

1. Individual estimates are produced from the latest available information at the time of preparation of the Accounts (covering a twelve month period in the "period of exercise" column) uprated in line with expenditure for the relevant reporting year. The monetary amounts quoted here may therefore differ from previously published values for the individual benefits.

2. The 2004-05 DLA National Benefit Review identified cases where the change in customer's needs have been so gradual that it would be unreasonable to expect them to know at which point their entitlement to DLA might have changed. These cases do not result in a recoverable overpayment as we cannot quantify or define when the customer's change occurred. Because legislation requires the Secretary of State to prove that entitlement to DLA is incorrect, rather than requiring the customer to inform us that their needs have changed, cases in this subcategory are legally correct. The difference between what claimants in these cases are receiving in DLA and related premiums in other benefits and what they would receive if their benefit was reassessed is estimated to be around £0.7 billion (+/− £0.2 billion). This figure is not included in the total above, but a similar figure was included in the global fraud and error figure of £3 billion reported in the Resource Account for 2003-04.

3. The 2005-06 SP pilot National Benefit Review identified around £30 million overpayments due to non-notification of death to the International Pension Centre. These have been included as customer error in this table—a small amount of these may be fraudulent.

4. Official error rates have been updated with estimates from the 2004-05 measurement exercise.

5. Overpayments due to knock-on effects between loss of DLA component entitlement and premiums on income-related benefits.

6. The estimated rate of fraud and error on unreviewed benefits, for which we have no reliable review information, has been set at 2.7% and divided equally among fraud, customer error and official error. This rate was set for the 2004-05 estimates on the basis of the overall level of fraud and error measured across reviewed benefits. This has not been altered to reflect subsequent reductions in the overall rate of fraud and error to avoid making the estimate too sensitive to small changes in other estimates which are not statistically significant.

7. Fraud and error on CTB has not been measured before and is assumed here to be equal to fraud and error rates on HB.

8. Although quoted to the nearest £0.1 billion, there are considerable uncertainties around the total estimates (95% confidence intervals of between +/− £0.2 billion and +/− £0.3 billion).

9. Individual figures may not add across to total fraud and error figures due to rounding.

Errors resulting in Underpayments

Reviews also provide data on underpayments in IS, JSA and MIG/Pension Credit. The estimates of total underpayments from claimant fraud, claimant error and official error in the year to March 2005 are £110 million for IS (1.1% of IS expenditure), £14 million for JSA (0.6% of JSA expenditure) and £121 million for MIG/Pension Credit (2.0% of MIG/Pension Credit expenditure). The equivalent figures for the financial year 2003-04 are £137 million for working age IS (1.3% of expenditure), £29 million for JSA (1.1% of expenditure) and £85 million for MIG/Pension Credit (1.7% of expenditure).

The equivalent information for underpayments of Housing Benefit is only available for the 85% of the HB expenditure that is within the scope of the HBR sample. The estimate for the year to September 2005 is around £120 million (1.1% of the expenditure within the scope of the HBR sample). There are no current plans to calculate an estimate for the whole of the HB expenditure. It should be noted that these estimates for underpayments are less comprehensive than those for overpayments.

Housing Benefit

The Department's strategy for encouraging local authorities to reduce the levels of fraud and error can be summarised under the following headings:

Prevention—the primary tool for preventing fraud and error is the Verification Framework, which specifies standards of good practice in securing the gateway to benefit. The Department has continued to work closely with local authorities, which have, as yet, not applied for funding to introduce the Verification Framework. At the end of 2004-05 there were only 15 (out of 408) local authorities that were not either compliant or in the process of becoming compliant with at least one part of the Verification Framework. By the end of 2005-06 this was reduced to 1 non-compliant local authority.

Correction—risk based reviews are used to target authorities' efforts on those cases most likely to become incorrect and data-matching referrals are used to target recorded anomalies between different systems.

Deterrence—the Security Against Fraud and Error scheme provides additional funding to local authorities in reward for proactive interventions which results in the identification of incorrectness in benefit claims, putting those claims right and the administration of sanctions and prosecutions.

45. Entities within the Departmental boundary

The entities within the boundary during 2005-06 were as follows:

Supply-financed:	The Pension Service Jobcentre Plus Child Support Agency Appeals Service The Rent Service Disability and Carers Service DWP Head Office and Corporate and Shared Services
Non-executive NDPBs:	None
Crown NDPBs:	Health and Safety Commission and Executive
Other entities:	None

The annual reports and accounts of the Supply-financed Agencies and Crown NDPBs are published separately.

Glossary

Administration Cost Limit

An overall limit applied to administration costs within the Department which should not be exceeded by the administration expenditure for the year.

Appropriations in Aid (A in A)

Expected income that arises during the normal course of business that the Department is authorised to retain. The income is voted by Parliament in the Estimate and is available to offset against expenditure in the current financial year. Any Excess A-in-A over the authorised limit must be surrendered to the Consolidated Fund. These are included within the Operating Cost Statement and disclosed separately in the Summary of Resource Outturn.

Consolidated Fund

This is operated by HM Treasury at the Bank of England and is used to finance central government spending. Revenue is obtained from taxes and other sources and is collected daily into the Fund.

Cost of Capital Charge

A charge to reflect the opportunity cost of Government funding invested in assets of the Department and included to ensure that the full cost of services is reflected in departmental accounts. It is calculated at a rate of 3.5% (2004-05 3.5%) on the average net assets (capital employed) held by the Department over the year. The charge is included in the Operating Cost Statement and apportioned between administration and programme costs.

Estimate

A summary of the resources and cash voted by Parliament to the Department for a particular year and against which expenditure is monitored. It is analysed by Requests for Resources, each being monitored separately.

General Fund

The General Fund represents the historic cost of the total assets less liabilities of the Department, to the extent that it is not represented by other reserves and financing items. It is included in Taxpayer's Equity on the Balance Sheet.

Net Cash Requirement

The amount of cash required and authorised from the Consolidated Fund for the Department to carry out the functions specified in the Estimate. Actual cash used during the year is described as the outturn of the net cash requirement.

Net Resource Outturn

This is the net total of income and expenditure consumed by the Department during the financial year.

Non-operating Cost A in A

Comprises proceeds from sales of assets and repayment of voted loans which can be retained by the Department. These are included in the Summary of Resource Outturn.

Request for Resources (RfR)

The basic unit of Parliamentary control for which resources to the Department are granted. Each RfR within the Estimate represents an accruals based measure of expected expenditure within the Department for items which fall within that RfR. The Summary of Resource Outturn, the Operating Cost Statement and Note 2 analyse net resource outturn by RfR.

Contact details

Benefit advice line

For confidential advice for people with disabilities, and their carers and representatives, about Social Security benefits and how to claim them, ring free on:

Telephone—0800 882200
Textphone—0800 243355

Child Support

For general information and advice about Child Support matters ring:

Telephone—0845 7133133 (calls charged at local rate)
Textphone—0845 7138924

Pension benefits

For general enquiries about pension related benefits and services ring:

Telephone—0845 6060265 (calls charged at local rate)
Textphone—0845 6060285

Job opportunities

For people looking for work and job vacancies ring:

Telephone—0845 6060234 (calls charged at local rate)
Textphone—0845 6055255

Benefit Fraud Hotline

For reporting suspected benefit fraud, ring free on:

Telephone—0800 854 440
Textphone—0800 3280512

Further details of how to contact the Department can be found on the following website:
www.dwp.gov.uk/contact/contact.atog.asp

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